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The Economics of Mileage Restrictions for Railway Workers in Western Canada
La rémunération au parcours des cheminots dans l'Ouest canadien

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Résumé de l'article

La convention collective conclue entre le Canadien Pacifique et le Syndicat des employés des transports dans l'Ouest du Canada contient un système de rémunération fondé sur un taux de salaire au parcours comportant un kilométrage maximal et minimal. Le présent article étudie les données économiques de ce système de rémunération au parcours de manière à identifier et à faire comprendre les problèmes de négociation collective qu'il engendre.

La première partie décrit le système de rémunération au kilométrage et le replace dans son contexte économique. Bien qu'il soit plus probable que l'employeur veuille limiter les parcours effectués par l'employé à cause de coûts de travail à peu près fixes, le syndicat voudrait, par cette limitation, protéger les emplois ainsi que le temps consacré aux loisirs de ses membres. Pour sa part, l'employeur veut possiblement établir un kilométrage garanti de façon à réduire toutefois le roulement de la main-d'oeuvre lorsqu'il y a diminution du trafic. C'est pour ce motif que l'on a négocié un parcours maximal de 3 800 milles et un parcours minimal de 2 600 à 3 000 milles par mois. Du côté du syndicat, on a considéré le kilométrage maximal comme étant le résultat de la négociation et comme s'il représentait pour le membre du rang le choix entre le kilométrage effectué et le temps libre.

La deuxième partie de l'article analyse les motifs économiques de la désaffection croissante du syndicat pour le système de rémunération au parcours. Les augmentations de la rémunération au parcours négociées ne sont pas équivalentes parce que les prix à la consommation sont plus élevés et, par conséquent, les gains réels plus bas à mesure que l'on se déplace vers l'Ouest à l'intérieur de l'unité de négociation. Face à une rémunération plus faible en gains réels, il était manifeste que les syndiqués del'Alberta et de la Colombie Britannique opteraient pour un parcours plus long afin de récupérer ce qu'ils perdaient en gains réels. En conséquence, beaucoup de syndiqués de ces deux provinces s'opposent aux limitations de parcours, et le Canadien Pacifique peut se montrer sympathique à leur cause, comme moyen de faciliter le recrutement des employés et de réduire le roulement de la main-d'oeuvre.

Une des solutions pourrait consister dans l'établissement de taux différents de salaire selon les régions. L'application de taux différents de salaire semble improbable si les syndiqués du Manitoba et de la Saskatchewan ne veulent pas accepter une diminution de leurs gains réels et si le Canadien Pacifique ne veut pas absorber le coût total de taux de rémunération au parcours plus élevé en Alberta et en Colombie Britannique.

La dernière partie de l'article traite des résultats probables des négociations sur les restrictions des parcours. De préférence à un système de rémunération fondé sur des taux différents de salaire, l'abandon des restrictions au kilométrage est ce qui est plus probable dans l'avenir. Cependant, si les écarts dans les prix à la consommation continuent de croître, cette solution deviendra moins satisfaisante et l'établissement de taux de salaire différents selon les régions deviendra plus attrayant.

The Economics of Mileage Restrictions for Railway Workers in Western Canada

Wayne Simpson
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The purpose of this paper is to examine the economics of the mileage payment system, to understand the problems created for the union and C.P.R. management and to examine potential solutions to the problem.

The collective agreement between Canadian Pacific Limited and the United Transportation Union on behalf of the conductors, baggagemen, brakemen, car retarder operators, yardmen and switchtenders employed in the Prairie and Pacific regions expired December 31, 1981. An important feature of the compensation system for these workers is a wage rate per mile combined with mileage restrictions, including both a minimum guarantee and a maximum per month of employment (*Collective Agreement*, 1979). This mileage payment system is likely to be an issue in forthcoming negotiations since union members, particularly those in British Columbia, have voiced their displeasure about the mileage limits[1]. The purpose of this paper is to examine the economics of the mileage payment system, to understand the problems that it has created for the union and C.P.R. management and to examine potential solutions to the problem.

The paper is divided into three sections. The first section describes the mileage payment system and places it in an economic framework. The second section analyzes the economic basis for disaffection with the system by union rank and file members and, perhaps, by the C.P.R. as well. The third section provides concluding remarks on the likely outcome of negotiations.

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1 In May, 1981, this discontent was reflected in a work slowdown over lack of time for hot meals, (*The Globe and Mail,* May 22, 25 and 26, 1981).

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THE MILEAGE PAYMENT SYSTEM

Workers engaged in the movement of freight and passengers at C.P.R. are paid a fixed rate per mile while the train is moving. When the train is stopped at a terminal — to perform switching operations, for example — workers are paid at the rate of twelve and one-half miles per hour. Wages are therefore determined strictly on a mileage basis.

From the standpoint of the employer, there is no incentive to limit the miles worked per employee until either (a) they are required to pay overtime premiums by the *Canada Labour Code;* (b) they believe that the productivity of employees per mile worked is declining; or (c) they believe that the safety of passengers, employees, trains, or equipment is jeopardized[2]. The reason for this is that the employer incurs quasi-fixed labour costs, or costs that vary at least partly with the number of employees rather than their hours worked (Oi, 1962). Administrative costs and visual acuity tests in the recruitment of trainmen are one example. Another example is the engineman training program in which trainmen receive $400 per week for 30 weeks plus a bonus of $2800-$3000 at the end of the course. Other quasi-fixed labour costs include health insurance, life insurance and employee injury insurance provided by C.P.R. plus their contributions to Unemployment Insurance and the Canada Pension Plan. Minimization of quasi-fixed labour costs requires the minimization of the number of employees, or the maximization of mileage per employee, at least until conditions (a) to (c) are encountered.

Mileage restrictions and guarantees are likely to be sought by the union, however, for two reasons. First, the maximization of mileage per employee (subject to (a), (b) and (c)) may jeopardize the employment of union members, particularly in a contracting industry such as railway transportation. Hence many junior employees can be expected to support mileage restrictions to preserve their jobs, provided that some income level is guaranteed that is competitive with alternative employment opportunities. Secondly, many junior and senior employees may not wish to work the mileage that is optimal from the standpoint of the employer. These workers would prefer more leisure under prevailing economic and social conditions. On the other hand, there is a mileage level below which they would clearly prefer less leisure and more income. Once a mileage maximum and minimum can be found that is approved by a majority of union members drawn from these two groups then it becomes a collective bargain-

2 It seems likely that (b) and (c) will not occur prior to (a), given reasonable scheduling and procedures.

ing issue. It is not surprising, therefore, that mileage regulations were initiated by the union and not the employer.

The C.P.R. has some incentive to provide mileage guarantees because many of the quasi-fixed labour costs noted above are employee-specific. If there is inadequate work temporarily for junior employees they have a strong incentive to look for work elsewhere if there is no income guarantee at the C.P.R. If they are successful in finding a new job and unavailable to return to the C.P.R., such costs as training and recruiting of that employee are lost. Henre there is a well-documented incentive to hoard labour (Seidule and Newton, 1980) where such quasi-fixed labour costs are significant, in particular among more senior workers. The C.P.R.'s willingness to hoard labour during *temporary* declines in business activity would make them receptive to some form of mileage guarantee to employees.

The result of collective bargaining has been a mileage maximum of 3800 miles per month plus mileage minima (provided that employees do not request fewer hours) of 3000 miles for regular workers and 2600 miles for less senior workers on the spareboard. Given the stronger economic incentives for the union than management to initiate such restrictions, particularly the mileage ceiling, it is useful to depict mileage restrictions as the outcome of the general preferences of union members, or intraorganizational bargaining. These preferences can be represented by a set of indifference curves for the median voter in the union (Farber, 1978) as shown in Figure 1. Given the available trade-off AB between income (the negotiated wage multiplied by miles worked) and leisure, the unionist chooses the point C which maximizes his satisfaction at, say 3800 miles per month. This restriction will be instituted and retained so long as economic conditions and the preference of union members stay the same.

DISAFFECTION WITH THE MILEAGE SYSTEM

In depicting mileage restrictions as the outcome of intra-union bargaining, we have made it clear that a minority of workers may be dissatisfied with the result. In this case, the major group would be senior workers with job security who are "underworked" at 3800 miles per month (Perlman, 1969, ch. 1). That is, they have stronger preferences for income over leisure and hence their indifference curves are flatter than those depicted in Figure 1. Yet as long as circumstances do not change they cannot alter the union position.

What may account for growing disaffection with these mileage restrictions and some potentially effective movement to change this aspect of the agreement? From the model in Figure 1 we have two explanations — changes in tastes and changes in economic conditions. While it may be tempting to appeal to changing membership tastes for income and leisure, this route is generally considered only as a last resort. If tastes do change over time among members, it is not clear why they would change in one particular direction en masse and why changes in one union member's preferences for less leisure would not be offset by changes in another member's preferences for more leisure.

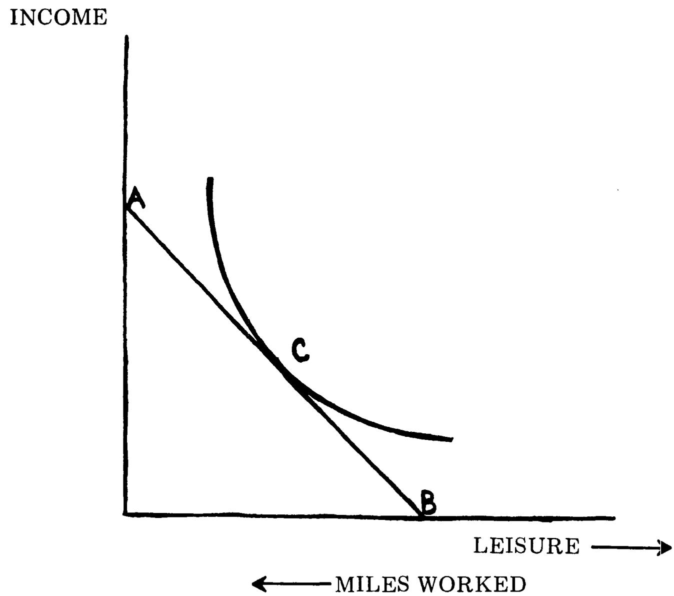

FIGURE 1

Consider, then, possible changes in the economic circumstances of union members over time. Although negotiated wage increases apply to all western Canadian members of the union, the increases do not turn out to be equivalent. The reason for this is differences in consumer prices within western Canada. An examination of the most recent figures and the longterm trend illustrates the point. In March 1981, the consumer price index had increased 14.7% in the previous twelve months in Vancouver, 13.9% in Calgary, 12.6% in Edmonton, 12.2% in Regina and 11.3% in Winnipeg (Statistics Canada, 1981). Furthermore, a study by the Conference Board of Canada found living costs in Vancouver to be 23% higher than those in Calgary which in turn were 18% higher than those in Winnipeg[3].

Since regional wage differentials are insignificant in the current agreement,[4] the uniform mileage rates imply that union members receive a lower real wage per mile as one moves westward within western Canada. The result is that union members do not face the same economic conditions, as shown in Figure 2. The trade-off BE between *real* income and leisure for western members is less steeply sloped to reflect a lower real wage. The consequent difference in preferred amounts of leisure depends on the tastes of unionists. The evidence on labour supply in the United States[5] has shown quite conclusively, however, that there are strong preferences for income among prime age males 25 to 54 years of age (Cain and Watts, 1973; Addison and Siebert, 1979). That is, the income effect dominates the substitution effect such that as real wages fall, railway workers, who are predominantly prime age males, will choose more work whenever possible to recover income. This increased work comes at the expense of less leisure, although leisure has become cheaper as a result of the lower real wage. More work will provide greater satisfaction and move them to a higher indifference curve. Hence the lower real wages for C.P.R. employees living further west can account for the differences in attitude toward the appropriate amount of work, or mileage restrictions, that should operate. In turn, the growing gap in real wages between eastern and western workers would account for the growing disaffection with present arrangements in British Columbia and Alberta.

The disaffection among unionists with current financial arrangements might be expected to receive sympathy from the employer because of difficulties in recruiting and retaining labour in the western part of the region. Since the wage rates paid by most other firms are determined solely by local economic conditions, it would be expected that wage increases would reflect local cost-of-living increases[6]. As a result other firms would offer more competitive compensation to railway workers in the western part of the region than in the eastern part of it. Recruitment and turnover problems

3 These comparisons were based on a typical middle management lifestyle (*Winnipeg Free Press,* June 17, 1981), but the differences are sufficiently large that the intraurban pattern is likely to apply to other incomes as well.

4 They are primarily restricted to the interior of British Columbia and they are insufficient to cover cost-of-living differentials (*Collective Agreement,* 1979).

5 We are still awaiting the first comparable study in Canada.

6 Otherwise workers would migrate from areas with low real wages to areas with high real wages creating upward pressure on wages in the former areas and downward pressure on wages in the latter areas.

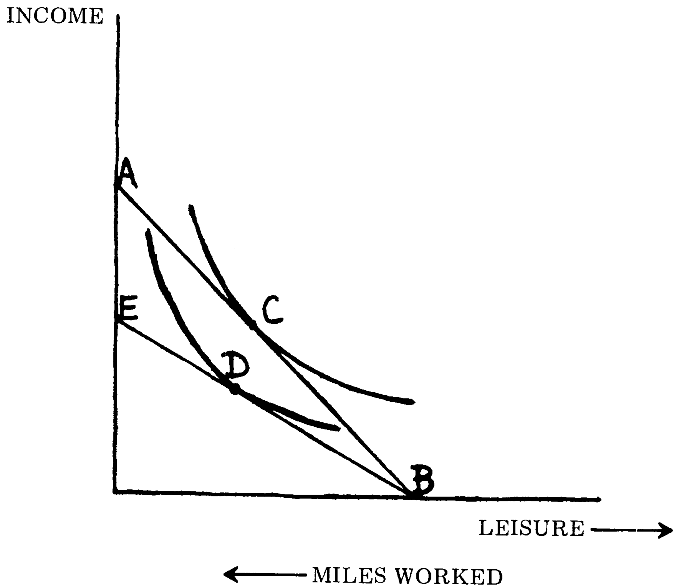

FIGURE 2

would be expected to be most prevalent in B.C. and Alberta, making the C.P.R. receptive to new financial arrangements that would make railway employment more attractive in those provinces.

There would seem to be a more appropriate solution to the problem than changes in mileage limitations — regional wage rate differentials to reflect differences in the cost-of-living. There are, however, reasons why this solution may not be chosen. The solution implies that workers in Saskatchewan and Manitoba, in particular, must be willing to accept much smaller than average increases so that workers in Alberta and British Columbia can receive increases well above the average. Since average wage increases have not kept up with inflation recently this means that such an agreement could likely be reached only if railway workers in Manitoba and Saskatchewan accepted significant real wage declines or if the employer were willing to add significantly to the cost of a settlement to provide such differentials. Neither concession seems likely given worker resistence to significant real wage declines and employer preference for higher mileage limitations (and hence fewer employees) rather than initially costly regional wage differentials.

THE LIKELY OUTCOME OF NEGOTIATIONS

Negotiations are therefore likely to produce not regional wage differentials but relaxation of mileage restrictions. This solution should appease unionists in British Columbia and Alberta, at least temporarily, without depriving their counterparts in Manitoba and Saskatchewan of anticipated wage increases. The solution will reduce the quasi-fixed labour costs of C.P.R. by reducing the amount of new hiring that will be required in Alberta and British Columbia. At the same time it will reduce turnover and perhaps enhance recruitment of new railway workers in those provinces. It would appear that all parties gain by this solution as long as safety and employee productivity are not jeopardized[7].

This bargaining outcome may be given impetus by the fact that mileage limitations are already 4300 miles per month for comparable employees at the C.N.R. in western Canada. This paper has argued, however, that the pressures for higher mileage ceilings are economic in nature and would therefore apply to the situation that C.N.R. railway workers face as well. This argument has concentrated on utility maximizing union behaviour given a choice between earnings and leisure as the economic force dictating the ultimate outcome for all western Canadian railway workers--and has thereby admittedly ignored more detailed consideration of such factors as union democracy, non-wage compensation, the production process, and collective bargaining strategies.

Insofar as this analysis is valid, it suggests that this solution may not be a lasting one. If the gap in the cost-of-living index continues to grow, pressure from western unionists in the unit will again mount and be accompanied by further C.P.R. (and C.N.R.) staffing difficulties in that part of the region. Continued relaxation of mileage restrictions is limited, however, by barriers (a), (b) and (c) noted above. Unionists in British Columbia and Alberta are also likely to have some limits to their willingness to work more hours than their brothers in Saskatchewan and Manitoba to compensate for lower real wages. Hence, pressure may grow for alternative solutions such as regional pay differentials. Such potential developments would suggest that there could be harder bargaining ahead to resolve the pay problem, not only with C.P.R. (and C.N.R.) but among western Canadian railway unionists themselves.

7 In economic terms, the solution is Pareto superior to the current situation.

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