

UNIT

3

Macroeconomics: Institutions

CHAPTER 8

Employment, Labor, and Wages

CHAPTER 9

Sources of Government Revenue

CHAPTER 10

Government Spending

CHAPTER 11

Money and Banking

CHAPTER 12

Financial Markets

Why It's Important

As you read this unit, learn how the study of economics helps answer the following questions:

- Why are deductions taken out of your paycheck?
- How do taxes pay for your education?
- Why does your savings account probably earn less than other investments?



Macroeconomics deals with the total performance of the economy.

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ECONOMICS *Online*



To learn more about macroeconomics through information, activities, and links to other sites, visit the *Economics: Principles and Practices* Web site at epp.glencoe.com

CONTENTS

CHAPTER

8

Employment, Labor, and Wages

Economics & You

What level of income do you want to earn after you graduate? Will your current training and skills allow you to reach your income goal? In Chapter 8, you will learn about the labor force and employment issues. To learn more about important labor issues, view the Chapter 14 video lesson:

The American Labor Force



Chapter Overview Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 8—Chapter Overviews** to preview chapter information.

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Labor is human resources—people who produce goods and services.

CONTENTS

The Labor Movement

Study Guide

Main Idea

Labor unions are organizations that attempt to improve the working conditions of their members through joint action.

Reading Strategy

Graphic Organizer As you read the section, compare how an industrial union differs from a trade union. Complete a graphic organizer similar to the one below by listing the differences.

Industrial Union	Trade Union

Key Terms

macroeconomics, civilian labor force, craft union, trade union, industrial union, strike, picket, boycott,

lockout, company union, Great Depression, right-to-work law, independent union

Objectives

After studying this section, you will be able to:

1. **Explain** why unions are still important today.
2. **Discuss** the development of the labor movement from the late 1700s to the 1930s.
3. **Relate** labor's successes during the Great Depression.
4. **Describe** the major labor developments since World War II.

Applying Economic Concepts

Civilian Labor Force Do you have a part-time job? If so, read to find out more about your role in the civilian labor force.

Cover Story

N.F.L. Officials Approve Pact ...

N.F.L. game officials voted yesterday to accept a new contract that the league had recently offered, ending a lockout during which replacements officiated N.F.L. games for the first time....

A majority of the 119 officials ratified the contract, which league and union officials had agreed to on Monday....The contract, which is good for four years with an option for six, gives the officials a 50 percent raise this season and a 100 percent raise by the fourth year....

Many coaches, fans and players had scoffed at the idea of a lockout, but the league ended up using 15 replacement officiating crews, with many of them pulled from below the Division I-A college level.



Replacement official signals an extra point.

—The New York Times, September 20, 2001

Labor issues, like the one discussed in the cover story, appear in the news all the time. After all, working for a living is one of the single most important things we do. How well we do, as measured by the satisfaction we get and the income we receive, affects virtually every other aspect of our lives. Accordingly, any study of economics that ignores the way the “labor” factor of production earns its income would be incomplete.

The study of labor is part of **macroeconomics**. Macroeconomics is the branch of economics that deals with the economy as a whole, including employment, gross domestic product, inflation, economic growth, and the distribution of income. For example, the population of the United States by mid-2003 was approximately 291 million people. Slightly less than half, or about 146 million, belonged to the **civilian labor force**—men and women 16 years old and over who are either working or actively looking for a job. The civilian classification excludes members of the armed forces, the prison population, and other institutionalized persons.

As you examine **Figure 8.1**, note that about 85 percent of those employed had no connection with unions, 13.2 percent were members of unions, and 1.4 percent were nonunion members being represented by unions. Although the percentage of union workers is small, unions are important for two reasons. First, they played a major role in promoting legislation that affects pay levels and working conditions today. Second, unions are a force in the economy, with membership of over 16 million people.

Historically, unions tended to be concentrated in heavy manufacturing industries. More recently, unions have made inroads in the service sector, especially among government workers. As **Figure 8.2** shows, 42 percent of all government workers were either members of a union or represented by a union.

Early Union Development

 The development of unions in the United States started in the colonial period. From there, unions waged a long uphill struggle that peaked in the 1930s.

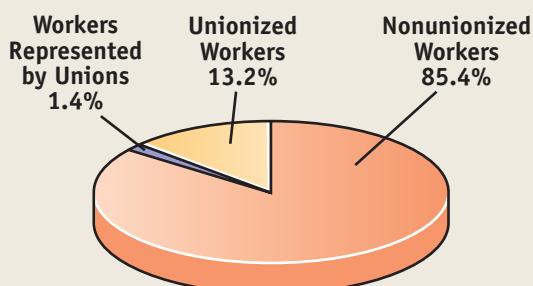
Colonial Times to the Civil War

In 1778, printers in New York City joined together to demand higher pay. This protest was the first attempt to organize labor in America. Before long, unions of shoemakers, carpenters, and tailors developed, each hoping to negotiate agreements covering hours, pay, and working conditions. While only a very small percentage of workers belonged to unions, most unions were comprised of skilled workers and possessed strong bargaining power.

Until about 1820, most of America's workforce was made up of farmers, small business owners, and the self-employed. Shortly after, however, immigrants began to arrive in great numbers. Because they provided a supply of cheap, unskilled labor, they posed a threat to existing wage and labor standards.

Even so, public opinion was against union activity and some parts of the country even banned labor unions. Labor organizers often were viewed as troublemakers, and many workers believed they

Employment and Union Affiliation



Source: Bureau of Labor Statistics, 2003

Using Graphs Most workers are not affiliated with unions. **What is the ratio of union to nonunionized workers?**

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could better negotiate with their employers on a one-to-one basis.

Civil War to the 1930s

During and after the Civil War, attitudes toward unions began to change. The Civil War led to higher prices, a greater demand for goods and services, and a shortage of workers. Industry expanded, and the farm population declined. Hourly workers in industrial jobs made up about one-fourth of the country's working population. Many of the cultural and linguistic differences between immigrants and American-born workers began to fade, and the labor force became more unified.

Types of Unions

By the end of the Civil War, two main types of labor unions had come into existence. One was

the **craft union**, or **trade union**, an association of skilled workers who perform the same kind of work. The Cigar Makers' Union, begun by union leader Samuel Gompers, is an example of this type of union. Other, more recent examples are shown in **Figure 8.3** on page 197.

The second type of union was the **industrial union**—an association of all workers in the same industry, regardless of the job each worker performs. The development of basic mass-production industries such as steel and textiles provided the opportunity to organize this kind of union. Because many of the workers in these industries were unskilled and could not join trade unions, they organized as industrial unions instead.

Union Activities

Unions tried to help workers by negotiating for higher pay, better hours and working conditions, and job security. If an agreement could not be reached, workers could **strike**, or refuse to work until certain demands were met. Unions also pressured employers by having the striking workers **picket**, or parade in front of the employer's business carrying signs about the dispute. The signs might ask other workers not to seek jobs with the company, or they might ask customers and suppliers to take their business elsewhere.

If striking and picketing did not settle the dispute, a union could organize a **boycott**—a mass refusal to buy products from targeted employers or companies. If a boycott was effective, it hurt the company's business.

Employer Resistance

Employers fought unions in a number of ways. Sometimes the owners called for a **lockout**, a refusal to let the employees work until management demands were met. Often violence erupted during lockouts, and troops were sometimes brought in to keep peace. At other times, management responded to a strike, or the threat of a strike, by hiring all new workers. Some owners even set up a **company union**—a union organized, supported, or run by employers—to head off efforts by others to organize workers.

Attitude of the Courts

Historically, the courts had an unfavorable attitude toward unions. Under English common law, unions were considered to be conspiracies against business and were prosecuted as such in the United States. Even the Sherman Antitrust Act of 1890, aimed mainly at curbing monopolies, was used to keep labor in line.

ECONOMICS AT A GLANCE

Figure 8.2

Union Membership and Representation by Industry

Industry	Percent of Employed Workers That Are:	
	Members of Unions	Represented by Unions
Government Workers	37.5	42.0
Communications & Public Utilities	21.8	23.3
Transportation	23.8	25.0
Construction	17.2	17.8
Manufacturing	14.3	15.1
Mining	8.5	10.0
Wholesale Trade	4.9	5.3
Services (general)	5.7	6.7
Retail Trade	4.4	4.9
Agricultural Wage & Salary Workers	2.3	2.6

Source: Bureau of Labor Statistics, 2002

Using Tables Labor unions are most influential in the service industries, which include government, communications, public utilities, and transportation. In what industries do unions have few members?

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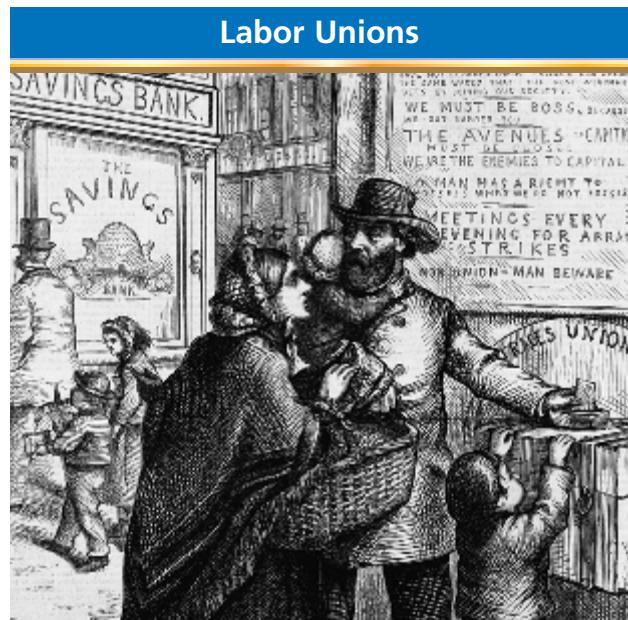
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In 1902, the United Hatters Union called a strike against a Danbury, Connecticut, hat manufacturer that had rejected a union demand. The union applied pressure on stores to not stock hats made by the Danbury firm. The hat manufacturer, charging a conspiracy in restraint of trade under the Sherman Act, filed a damage suit in the state court but lost. Later, the Supreme Court ruled that the union had organized an illegal boycott that was in restraint of trade. This ruling dealt a severe blow to organized labor.

The Danbury Hatters case and several subsequent antiunion decisions pushed organized labor to call for relief. The passage of the Clayton Antitrust Act (1914) helped to remedy the situation. The Clayton Act expressly exempts labor unions from prosecution under the Sherman Act.

Labor During the Great Depression

 The **Great Depression**—the greatest period of economic decline and stagnation in United States history—began with the collapse of the stock market in October 1929. The economy



Union Activities Early American labor unions had few rights to organize. **What tactics did the early unions take to improve their working conditions?**

reached bottom in 1933, and did not recover to its 1929 level until 1939.

Unemployment and Wages

During the depths of the Depression as many as one in four workers were without a job. Many who kept their jobs had their pay cut. In 1929, the average manufacturing wage was 55 cents per hour. By 1933, however, wages had plummeted to 5 cents per hour.

The Great Depression brought misery to millions, but it also changed attitudes toward the labor movement. Common problems united factory workers, and union promoters renewed their efforts to organize workers.

Pro-Union Legislation

New legislation aided labor. The Norris-LaGuardia Act of 1932 prevented federal courts from issuing rulings against unions engaged in peaceful strikes, picketing, or boycotts. This forced companies to negotiate directly with their unions, rather than take them to court.

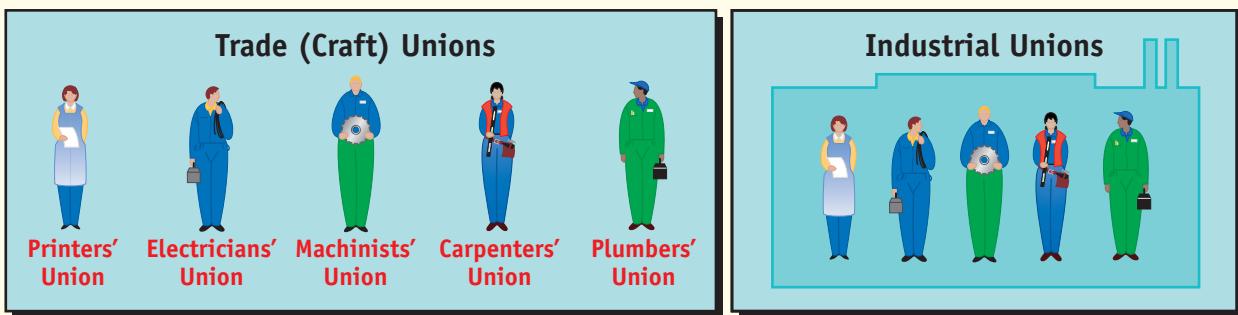
The National Labor Relations Act (NLRA), or Wagner Act, of 1935 established the right of unions to collective bargaining. The act also created the National Labor Relations Board (NLRB), giving it the power to police unfair labor practices. The NLRB also had the power to oversee and certify union election results. If a fair election resulted in a union becoming the employees' bargaining agent, employers were required to recognize and negotiate with it.

The Fair Labor Standards Act (1938) applies to businesses that engage in interstate commerce. The act fixes a federal minimum wage for many workers and establishes time-and-a-half pay for overtime, which is defined as more than 40 hours per week. It also prohibits oppressive child labor, which includes any labor for a child under 16 and work that is hazardous to the health of a child under 18.

Labor Since World War II

 Many Americans viewed organized labor favorably in the 1930s, but public opinion shifted again by the end of World War II. Some people believed that Communists had secretly

Trade (Craft) and Industrial Unions



Using Charts Labor unions can be categorized as either trade or industrial unions. **How do trade unions differ from industrial unions?**

entered the unions. Others were upset by the loss of production resulting from strikes. In 1946 alone, more than 116 million workdays were lost due to work stoppages. People began to feel that management, not labor, was the victim.

Antiunion Legislation

Growing antiunion feelings led to the Labor-Management Relations Act, or Taft-Hartley Act, of 1947. The act puts limits on what unions can do in labor-management disputes. Among its provisions, Taft-Hartley gives employers the right to sue unions for breaking contracts, and prohibits unions from making union membership a condition for hiring.

The Taft-Hartley Act had two other provisions that worked against organized labor. The first was an 80-day cooling-off period that federal courts could use to delay a strike in the case of a national emergency.

The second (Section 14(b)) was a tough anti-union provision, which allowed individual states to pass right-to-work laws. A **right-to-work law** is a state law making it illegal to force workers to join a union as a condition of employment, even though a union may already exist at the company. If a state does not have a right-to-work law, new workers may

have to join the existing union as a condition for employment shortly after being hired.

If a state has a right-to-work law, then new hires have the option to join or not to join a union—even if the overwhelming majority of workers at the company support the union. Lawmakers have supported a national right-to-work law, requiring all states to give workers this option, whether the states want to or not.

In the mid-1900s, other legislation was passed to stop the criminal influences that had begun to emerge in the labor movement. The Labor-Management Reporting and Disclosure Act, or Landrum-Griffin Act, of 1959 tried to protect individual union members from unfair actions of unions and union officials. The act requires unions to file regular financial reports with the government, and it limits the amount of money officials can borrow from the union.

The AFL-CIO

The American Federation of Labor (AFL) began in 1886 as an organization of craft unions. Later, it added several industrial unions. The trade and industrial unions, however, did not always agree over the future of the union movement. As a result, eight of the AFL industrial unions formed the

Labor Unions



Legislation Three sisters lead the picket line in a demonstration calling for organization of a union. *What legislation gave unions the right to engage in collective bargaining?*

Committee for Industrial Organization in 1935. Headed by John L. Lewis, president of the United Mine Workers of America, its goal was to bring about greater unionization in industry.

The AFL and Lewis, however, did not get along, so the AFL expelled the Committee for Industrial Organization unions in 1937. Those unions then formed the Congress of Industrial Organizations

(CIO). The CIO quickly set up unions in industries that had not been unionized before, such as the steel and automobile industries. By the 1940s, the CIO had nearly 7 million members.

As the CIO grew stronger, it began to challenge the dominance of the AFL. In 1955 the AFL and the CIO joined to form the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

Independent Unions

Although the AFL-CIO is a major force, other unions are also important in the labor movement. Many are **independent unions**—unions that do not belong to the AFL-CIO, such as the Brotherhood of Locomotive Engineers.

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Student Web Activity Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 8—Student Web Activities** for an activity on labor unions.

Section 1 Assessment

Checking for Understanding

- Main Idea** Using your notes from the graphic organizer activity on page 193, describe the purpose of labor unions.
- Key Terms** Define macroeconomics, civilian labor force, craft or trade union, industrial union, strike, picket, boycott, lockout, company union, Great Depression, right-to-work law, independent union.
- Explain** why unions are important today.
- Describe** several reasons for the rise of unions prior to 1930.
- State** why unions became successful during the Great Depression.

- Describe** the major labor developments since World War II.

Applying Economic Concepts

- Civilian Labor Force** How would your participation in the civilian labor force be affected if you joined the armed services?

Critical Thinking

- Making Generalizations** How did the major legislative acts discussed in the section reflect the rise and decline of the labor movement?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

CRITICAL THINKING

Skill

Evaluating Primary and Secondary Sources

Primary sources are original records of events made by people who witnessed them. They include letters, journals, legal documents, drawings, photographs, and artifacts. *Secondary sources* are documents created after an event occurred. They pull together information from many sources and provide an overview of events.

Learning the Skill

To interpret primary and secondary sources, follow these steps:

- Identify the author of the document.
- Identify when and where the document was written.
- Read the document for its content.
- Identify the author's opinions and biases.
- Determine what kind of information the document provides and what is missing.

Practicing the Skill

Read the excerpt below, then answer the questions that follow.

For the past two decades, economists and social observers have bemoaned the rapid growth in income inequality in the U.S. Pointing to the widening gap between the wages of high school graduates and those with college degrees, some critics have claimed that the nation is in danger of developing a rigid class system out of sync with traditional American democratic values.

Lately, such concerns have abated. For one thing, there has been a general upgrading of the labor force as more and more Americans have graduated from high school and gone on to college. For another, low unemployment has finally begun to lift the wages of those at the bottom of the income ladder. Still, as a recent study by economist Maria E. Enchaustegui of the University of Puerto Rico suggests, there is one group whose economic status may

actually deteriorate in the years ahead despite their adherence to the work ethic: low-skilled immigrants.

Between 1980 and 1994, notes Enchaustegui, the number of working-age immigrants in the U.S. without a high school degree jumped from 2.8 million to 5.1 million—as the number of U.S.-born high school dropouts fell sharply from 20 million to 13 million. . . .

. . . The problem is that their very numbers, combined with declining demand for low-skilled workers, are driving their wages down. . . .

—Business Week, June 7, 1999

1. When was this document published?
2. What was the general feeling of the person who wrote this document?
3. What economic trend is the writer describing? Is information missing from this passage?

Application Activity

Look through the letters to the editor in your local newspaper. Prepare a report analyzing one of the letters. Summarize the article, the writer's point of view and frame of reference, and any primary sources cited.



Practice and assess key social studies skills with the
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Resolving Union and Management Differences

Study Guide

Main Idea

Unions and management negotiate contracts through a process that is known as collective bargaining.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to the one below that describes the different ways labor disputes are resolved.



Key Terms

closed shop, union shop, modified union shop, agency shop, grievance procedure, mediation, arbitration, fact-finding, injunction, seizure

Objectives

After studying this section, you will be able to:

1. **Explain** the differences among kinds of union arrangements.
2. **Describe** several ways to resolve labor and management differences when collective bargaining fails.

Applying Economic Concepts

Union Arrangements Does the company that you or your parents work for have a union? Read to learn more about the different kinds of unions that exist today.

Cover Story

American Airlines Flight Attendants Reject Arbitration

The union representing flight attendants at American Airlines rejected an offer of arbitration from federal mediators yesterday, assuring the start of a 30-day cooling-off period after which its members will be legally free to strike.

The major issue dividing the two sides is pay. The flight attendants now earn \$15,000 to \$35,000 a year, the union said. American said that the union's last proposal would cost the airline \$570 million more over six years than its final offer. The union said that the gap was closer to \$200 million.

—The New York Times, May 31, 2001



American Airlines Strike

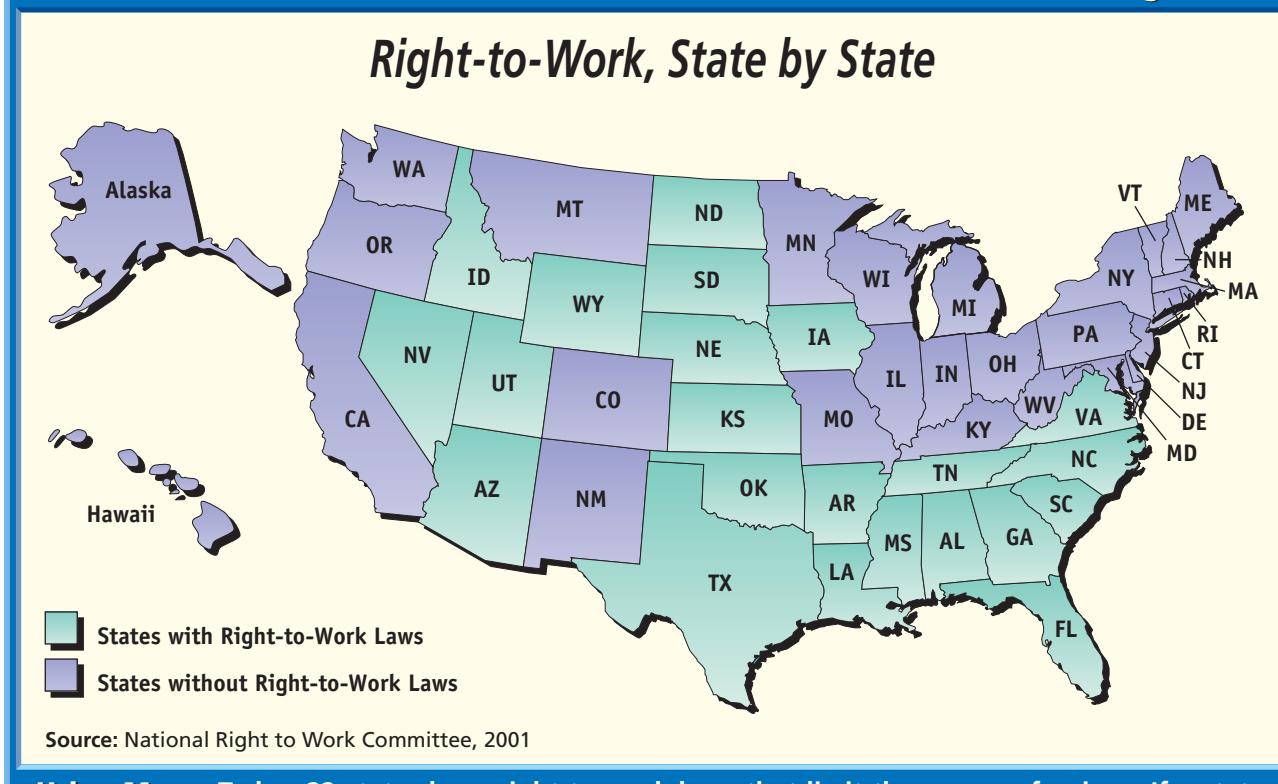
Over the years, many disputes have occurred between labor and management. Sometimes employees take action against their employer, as during the 1981 air traffic controllers' strike. Sometimes the employer takes action against its employees, as in the case of the 1998–1999 NBA lockout. While the NBA was finally able to settle its difficulties, there are still other ways to resolve the deadlock had they needed them.

Kinds of Union Arrangements

 The labor movement has organized workers in various ways to deal more effectively with management. Four kinds of union arrangements are discussed below.

Closed Shops

The most restrictive arrangement is the **closed shop**, a situation in which the employer agrees to hire only union members. In effect, this allows the union to determine who is hired by giving or denying a person union membership.



Using Maps Today, 22 states have right-to-work laws that limit the power of unions. If a state has such a law, unions cannot force workers to join the union as a condition of continued employment. **Which regions have few or no states that have enacted right-to-work laws?**

Although this kind of union arrangement was common in the 1930s and early 1940s, the Taft-Hartley Act of 1947 made the closed shop illegal for companies involved in interstate commerce. Because most firms in the United States today are directly or indirectly engaged in interstate commerce, few, if any, closed shops exist.

Union Shops

The second arrangement is the **union shop**, an employment situation where workers do not have to belong to the union to be hired, but must join soon after and remain a member for as long as they keep their jobs. Today, the 22 states shown in **Figure 8.4** have taken advantage of Section 14(b) to pass right-to-work laws that prohibit mandatory union membership.

Modified Union Shops

The third kind of arrangement is a **modified union shop**. Under this arrangement, workers do not have to belong to a union to be hired and cannot be made to join one to keep their jobs. If workers voluntarily join the union, however, they must remain members for as long as they hold their jobs.

Agency Shops

Another arrangement is the **agency shop**—an agreement that does *not* require a worker to join a union as a condition to get or keep a job, but *does* require the worker to pay union dues to help pay collective bargaining costs. Nonunion workers are also subject to the contract negotiated by the union, whether or not they agree with it. Agency

shops are primarily responsible for the 1.4 percent of employed wage and salary workers represented by unions, as shown in **Figure 8.1**.

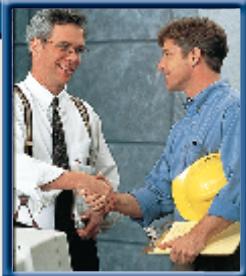
Collective Bargaining

 When labor and management take part in collective bargaining, representatives from both sides meet. A group of elected union officials represents workers, and company officials in charge of labor relations represent management. Collective bargaining requires compromise from both parties, and the discussions may go on for months.

If the negotiations are successful, both parties agree on basic issues such as pay, working conditions, and benefits. Because it is difficult to anticipate future problems, a **grievance procedure**—a provision for resolving issues that may come up later—may also be included in the final contract. Normally, union and management are able to reach an agreement. If not, other methods are available to resolve the differences.

Careers

Labor Relations Specialist



Are you a people person? Are you patient, fair-minded, and persuasive? Can you function under pressure?

The Work

Labor relations specialists formulate labor policy, oversee industrial labor relations, negotiate collective bargaining agreements, and coordinate grievance procedures to handle complaints resulting from contract disputes. Knowledge about wages and salaries, benefits, pensions, and union and management practices is necessary.

Qualifications

Courses in labor law, collective bargaining, labor economics, labor history, and industrial psychology are essential. Most often, labor relations specialists hold a degree in labor relations.

Mediation

One way to resolve differences is through **mediation**, the process of bringing in a neutral third person or persons to help settle a dispute. The mediator's primary goal is to find a solution that both parties will accept. A mediator must be unbiased so that neither party benefits at the expense of the other. If the mediator has the confidence and trust of both parties, he or she will be able to learn what concessions each side is willing to make.

In the end, the mediator recommends a compromise to both sides. Neither side has to accept a mediator's decision, although it often helps break the deadlock.

Arbitration

Another way to resolve differences is through **arbitration**, a process in which both sides agree to place their differences before a third party whose decision will be accepted as final.

Arbitration is finding its way into areas beyond labor-management relations as well. American Express revised the agreement it had with its credit card holders and now requires disputes to be solved by an arbitrator rather than in the courts. This means that a credit card holder can no longer sue American Express in the event of a dispute—the matter goes to arbitration instead.

Fact-Finding

A third way to resolve a dispute is through **fact-finding**, an agreement between union and management to have a neutral third party collect facts about a dispute and present nonbinding recommendations. This process can be especially useful in situations where each side has deliberately distorted the issues to win public support, or when one side simply does not believe the claims made by the other side. Neither labor nor management has to accept the recommendations the fact-finding committee makes.

Injunction and Seizure

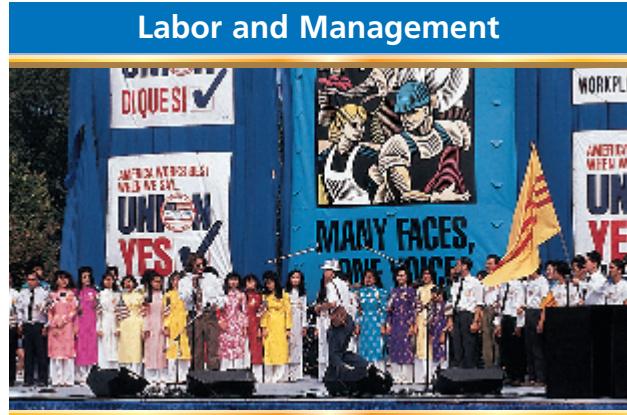
A fourth way to settle labor-management disputes is through injunction or seizure. During a

dispute, one of the parties may resort to an **injunction**—a court order not to act. If issued against a union, the injunction may direct the union not to strike. If issued against a company, it may direct the company not to lock out its workers. In 1995, after professional baseball players ended their strike and went back to work, the owners promptly called a lockout. The players then got an injunction against the owners, and the 1995 baseball season began—without a labor agreement.

Under extreme circumstances, the government may resort to **seizure**—a temporary takeover of operations—to allow the government to negotiate with the union. This occurred in 1946 when the government seized the bituminous coal industry. While operating the mines, government officials worked out a settlement with the miners' union.

Presidential Intervention

The president of the United States may enter a labor-management dispute by publicly appealing to both parties to resolve their differences. This can be effective if the appeal has public support. The president also can fire federal workers. In 1981 President Ronald Reagan fired striking air traffic controllers because they were federal employees



Negotiating Washington, D.C., was the scene of a major labor rally in the early 1990s. **What is the process through which unions and management negotiate contracts called?**

who had gone on strike despite having taken an oath not to do so.

The president also has emergency powers that can be used to end some strikes. When pilots from American Airlines went on strike in 1997 during a peak travel weekend, President Clinton used a 1926 federal law, the Railway Labor Relations Act, to order an end to the strike less than 30 minutes after it began.

Section 2 Assessment

Checking for Understanding

- 1. Main Idea** Using your notes from the graphic organizer activity on page 200, explain the purpose of collective bargaining.
- 2. Key Terms** Define closed shop, union shop, modified union shop, agency shop, grievance procedure, mediation, arbitration, fact-finding, injunction, seizure.
- 3. List** four kinds of union arrangements.
- 4. Explain** six ways to resolve union and management differences when collective bargaining fails.

Applying Economic Concepts

- 5. Union Arrangements** Contact a firm in your community that has a union. Ask if all

workers in the company are required to join, or if only some are. Based on your information, determine if the union arrangement is a closed shop, a union shop, a modified union shop, or an agency shop.

Critical Thinking

- 6. Sequencing Information** If you represented a company during a collective bargaining session, and if negotiations were deadlocked, what course of action would you recommend? Why?
- 7. Making Comparisons** How does voluntary arbitration differ from mediation?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

Profiles IN Economics

Labor Giant: John L. Lewis

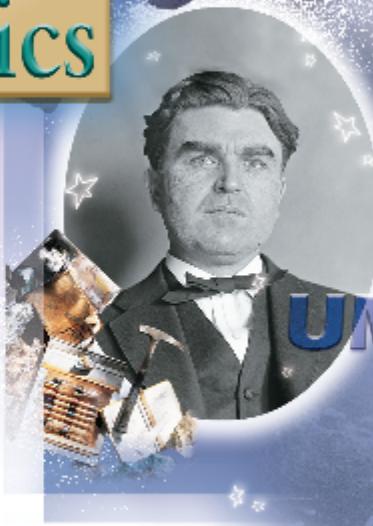
(1880–1969)

For more than four decades, John L. Lewis stood as a giant in the American labor movement. As president of the United Mine Workers of America (UMW), his powerful leadership and dynamic style made him an influential—and controversial—figure.

Lewis, the son of Welsh immigrants, had little education. As a young man, Lewis worked in mines, earning a living by his physical strength and ingenuity. He later told a convention of miners, “I have always found that if I could not make a living in one place, I could in another. . . .”

As a leading figure in both the UMW and CIO, Lewis was instrumental in using strikes and negotiation to benefit union workers. He succeeded in raising wages and improving working conditions. His concern for the safety and well-being of miners was a hallmark of his leadership.

Lewis was often criticized for ruling his union with an iron hand. Yet no one can deny his many contributions to poor workers—or the giant role he played in U.S. labor history.



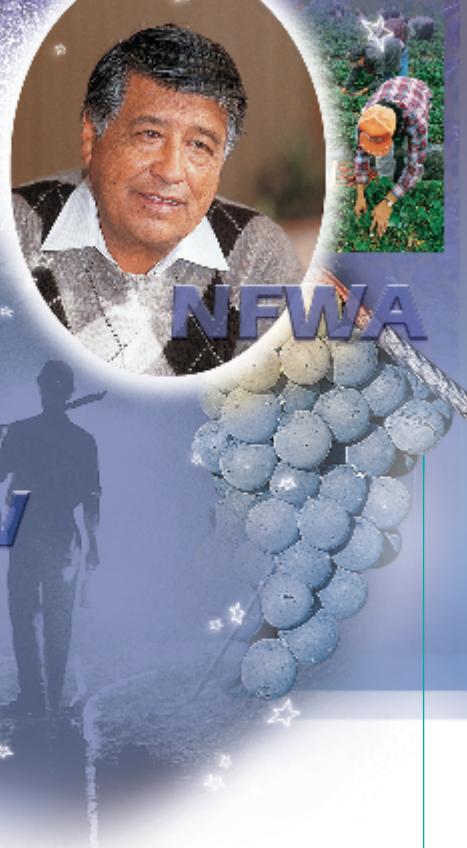
UMW

Acts of Courage: Cesar Chavez

(1927–1993)

“The truest act of courage,” Cesar Chavez said, “is to sacrifice ourselves for others in a totally non-violent struggle for justice.” Chavez lived by these words. He founded the nation’s first successful union for agricultural workers, the National Farm Workers of America (NFWA), in 1962. Its goal was justice for poor, migrant farm workers, largely Hispanic, who were among the most exploited workers in the country.

Chavez learned about the hard life of the migrant worker from bitter, early experience. He first worked in California’s farm fields when he was just ten years old. Like other migrant workers, Chavez’s family had to move to where work could be found.



In 1965, Chavez organized a strike of migrant grape pickers in California. Later, Chavez called for a nationwide boycott of California grapes. Under his slogan “Long live the strike!” the union kept the pressure on until, in 1970, the grape growers agreed to recognize the union. The results? Better working conditions and better pay, and a long sought-after voice for migrant workers.

Today, Chavez is revered. His life stands as a symbol for the battle for economic justice.

Examining the Profiles

- Making Comparisons** What similarities are there between Lewis and Chavez?
- For Further Research** Find out how a clash between Lewis and President Harry Truman led to a government seizure of mines in 1946. Write a newspaper article about the event.

Labor and Wages

Study Guide

Main Idea

Wages differ for a variety of reasons, including skills, type of job, and location.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to the one below by listing the reasons wages differ from one region to another.



Key Terms

unskilled labor, semiskilled labor, skilled labor, professional labor, noncompeting labor grades, wage rate,

traditional theory of wage determination, equilibrium wage rate, theory of negotiated wages, seniority, signaling theory, labor mobility

Objectives

After studying this section, you will be able to:

1. **Identify** four main categories of labor.
2. **Explain** the importance of noncompeting labor grades.
3. **Describe** three different approaches to wage determination.

Applying Economic Concepts

Signaling Theory Believe it or not, diplomas have something in common with prices. Read to find out more about the signals they send.

Cover Story

People Are What's Most Important

Rhetoric aside, today we live in a capitalist economy.

Now while the word “capitalist” often conjures up images of those icons to capitalism—large buildings or factories and other symbols of worth—it is said that today’s capitalist economy is built on people.

Nobel economics prize winner Gary Becker . . . asserted that human capital is the backbone of the capitalist economy and he noted that in the United States, between 17 and 25 percent of the GDP was being spent on the field of education and career training. . . .

He also observed that around the world, advances in technology now favored people with a greater command of knowledge and skills. . . .



Computer education class

—The Bangkok Post, January 27, 1999

The cover story stresses that investment in human capital is one of the more important investments we can make. The extent to which we invest in our own level of skills, experience, and knowledge even affects the way we describe and classify labor.

Categories of Labor

 The four major categories of labor are based on the general level of knowledge and skills needed to do a particular kind of job. These categories are unskilled, semiskilled, skilled, and professional.

Unskilled Labor

Those who work primarily with their hands because they lack the training and skills required for other tasks make up the category of **unskilled labor**. These people work at jobs such as digging ditches, picking fruit, and mopping floors. Unskilled workers are likely to have the least amount of human capital invested in them—and therefore they often earn the lowest wages.



THE GLOBAL ECONOMY

	United States	10.9		New Zealand	15.7		Spain	21.0
	United Kingdom	11.5		Italy	17.6		South Africa	27.0
	Sweden	14.5		Germany	17.7		Mexico	33.2
	Australia	14.6		Japan	17.8			
	France	15.2		Israel	21.0			

Source: USDA, United Nations System of National Accounts

PERCENT OF INCOME SPENT ON FOOD

How much does food cost you and your family? Depicted here is the percentage of income that the average citizen of the country spends on food.

Critical Thinking

- Making Comparisons** How do the expenditures in the United States compare with those in France?
- Making Generalizations** Is the statement "Most nations' citizens spend about 20 percent of their income on food" a valid statement? Why or why not?

Semiskilled Labor

A higher category is **semiskilled labor**—workers with enough mechanical abilities and skills to operate machines that require a minimum amount of training. These workers may operate basic equipment such as electric floor polishers, dishwashers, lawnmowers, and other machines that call for a minimal amount of training.

Skilled Labor

Skilled labor includes workers who are able to operate complex equipment and can perform their tasks with little supervision. These workers represent a higher investment of human capital, especially in the areas of experience and training. Examples include carpenters, typists, tool and die makers, computer technicians, chefs, and computer programmers.

Professional Labor

The final category is **professional labor**, or those individuals with the highest level of knowledge-based education and managerial skills. Examples include doctors, scientists, lawyers, and corporate

executives. These people usually have invested the most in their own human capital, and normally earn some of the highest incomes.

Noncompeting Labor Grades

Workers in one labor category generally do not compete with those in another category. For example, unskilled workers do not compete directly with semiskilled and skilled laborers. Because of this, it is useful to think of labor as being grouped into **noncompeting labor grades**, broad categories of labor that do not directly compete with one another because of experience, training, education, and other human capital investments.

This does not mean that some people in one category can never make it to a higher category—workers often do when they acquire additional skills and training. Others, however, often find it difficult to make the transition for reasons of cost, opportunity, and initiative.

Cost is one of the more difficult barriers to advancement. Some individuals have the ability and initiative to obtain additional technical skills, but they may not have the money to pay for the training. Many students have the aptitude to become college

professors, but they lack the resources needed for up to six years of post-college study.

A lack of opportunity poses another barrier. Some people may live in areas where additional training and education are not available. Others may have the resources and grades to enter a specialized program such as law or medical school, but still may not be able to enter because schools have limited openings.

Although they know that more skills are needed to get a better job, other individuals simply lack the initiative to get ahead. These people may never acquire additional training or education because they are not willing to put forth the extra effort.

Wage Determination

 Most occupations have a **wage rate**, a standard amount of pay given for work performed. Wage rates usually differ from one occupation to the next, and wages are sometimes different even within the same occupation.

Differences in wage rates can be explained in three ways. The first relies on the traditional tools of supply and demand. The second recognizes the influence of unions in the bargaining process. The third is known as “signaling theory.”

Traditional Theory of Wages

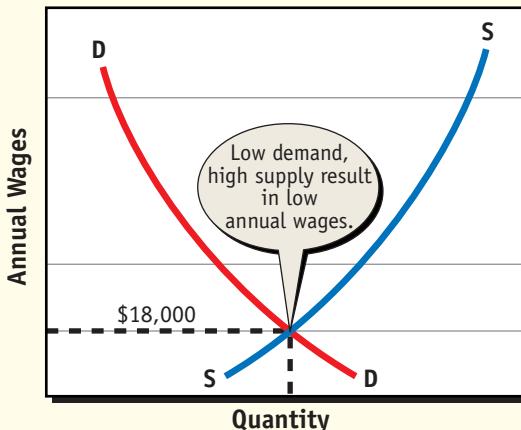
Some of the highest paid people are the professional athletes, performers, and managers with skills so exceptional that they are above and beyond the norm in their professions. Their pay can be explained by the **traditional theory of wage determination**. The theory states that the supply and demand for a worker's skills and services determine the wage or salary.

Note that **Panel A** in **Figure 8.5** shows what happens to wages when a relatively large supply of ditch diggers is coupled with a relatively low level of demand. **Panel B** shows what happens when a relatively small supply of professional athletes is paired with a relatively high level of demand. The intersection of supply and demand determines the **equilibrium wage rate**—the wage rate that leaves neither a surplus nor a shortage in the labor market.

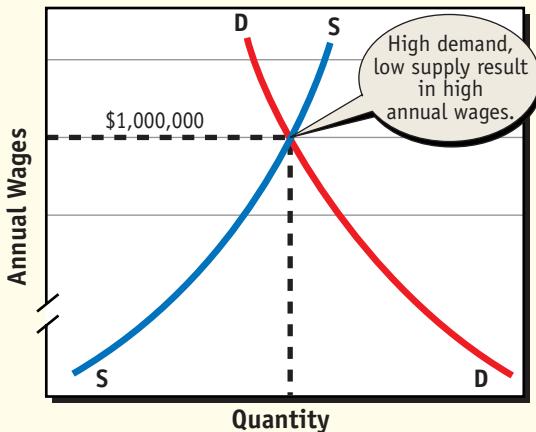
In most cases, the higher the level of human capital, the higher the skill of labor required, and the

The Traditional Theory of Wage Determination

A Ditch Diggers



B Professional Athletes



Using Graphs The market forces of supply and demand explain the equilibrium wage rate for the traditional theory of wage determination. **How does this theory differ from the theory of negotiated wages?**

Figure 8.6

Median Weekly Earnings by Occupation and Union Affiliation

Occupation	Represented by Unions	Nonunion Workers
Managerial and Professional Specialty	\$884	\$884
Precision Production, Craft and Repair	814	590
Government Workers	767	640
Operators, Fabricators, and Laborers	627	445
Technical, Sales, and Administrative Support	625	536
Farming, Forestry, and Fishing	524	357

Source: Bureau of Labor Statistics, 2003

Using Tables Weekly earnings are significantly higher for highly skilled occupations. Workers represented by unions also make substantially more than their nonunion counterparts. **What can you infer about the theory of negotiated wages from Figure 8.6?**

higher the average wage rate. Semiskilled workers generally receive more than unskilled workers, and skilled workers receive more than semiskilled or unskilled workers. Professional workers generally earn more than any of the other grades. This relationship is evident in **Figure 8.6**, which ranks occupations in descending order according to the level of skills and training required.

At times, exceptions to the traditional theory may appear to exist. Some unproductive workers may receive high wages because of family ties or political influence. Other highly skilled workers may receive low wages because of discrimination

based on their race or gender. In addition, workers and employers do not always know what the market wage rate is or should be.

Theory of Negotiated Wages

Sometimes other theories are useful when explaining wage differentials. The **theory of negotiated wages** states that organized labor's bargaining strength is a factor that helps determines wages. A strong union, for example, may have the power to force higher wages on some firms.

Figure 8.6 helps validate the theory of negotiated wages. The table shows that when workers are either unionized or represented by unions, weekly salaries are significantly higher than for nonunion workers. This situation applies to all occupations except for the “managerial and professional specialty” category, whose members are seldom unionized.

A final factor important to unions and collective bargaining is **seniority**—the length of time a person has been on the job. Because of their seniority, some workers receive higher wages than others who perform similar tasks.

Signaling Theory

The last explanation is known as **signaling theory**. This theory states that employers are willing to pay more for people with certificates, diplomas, degrees, and other indicators or “signals” of superior ability. For example, a sales firm might prefer to hire—or be willing to pay more for—a college graduate with a major in modern dance and a minor in theatre, than a high school graduate who excelled in business courses.

While this may seem odd at first, some firms view the college degree as a signal that the individual possesses the intelligence, perseverance, and maturity to succeed in his or her endeavors.

You might hear from friends and acquaintances that they did not need their high school or college degree to do the job they currently have—as if their education was unimportant. What these people overlook is signaling theory—the theory that helps explain *why* they got the job in the first place. The theory says nothing about what they needed to know to actually perform the job once they got it.

Regional Wage Differences

 Regardless of how wage rates are determined, they can still be different for the same job from one part of the country to another. Labor mobility, cost of living differences, and attractiveness of location can all make a difference.

Skilled workers often are scarce in some parts of the country and abundant in others, causing differences in wage rates. These differences, however, can be minimized by **labor mobility**—the ability and willingness of workers to relocate in markets where wages are higher.

Not all workers are equally mobile. Some are reluctant to move away from relatives. Some may want to move, but find that the cost is too high. Others do not want the inconvenience of buying a new house or renting a new apartment. As a result, the demand for certain skills remains high in some areas and low in others, and so wages tend to vary.

Another factor that affects wages is the cost of living. In many southern states, fresh fruits and vegetables are readily available. In addition, little money is spent on heavy clothing or on heating a home. In Alaska, however, food must be shipped in from thousands of miles away, people must have warm clothing, and every home must be well

heated. Because the cost of living is higher in Alaska than in southern states, employers tend to offer higher wages in Alaska.

Finally, location can also make a difference because some places are thought to be so attractive that lower wages can be offered there. A person who likes to hunt and fish may be willing to work for less pay in Colorado or Montana than in New York City. Others may want to flee the busy—and expensive—city life for life in the country.

STANDARD &POOR'S INFOBYTE

Personal Income Personal income is a measure of income that is published by the Department of Commerce. It represents the total income that consumers receive, including most of the national income earned in the production of gross domestic product. It measures wages, salaries and other income sources, including rental income, government subsidy payments, interest income, and dividend income.

Section 3 Assessment

Checking for Understanding

- Main Idea** Using your notes from the graphic organizer activity on page 205, explain why wage rates differ among regions.
- Key Terms** Define unskilled labor, semiskilled labor, skilled labor, professional labor, non-competing labor grades, wage rate, traditional theory of wage determination, equilibrium wage rate, theory of negotiated wages, seniority, signaling theory, labor mobility.
- List** the four categories of labor.
- Explain** the importance of noncompeting labor grades.
- Describe** three different approaches to wage determination.

Applying Economic Concepts

- Signaling Theory** Look at some help-wanted ads in your local paper. What criteria do they often specify, and how do these criteria relate to signaling theory?

Critical Thinking

- Making Comparisons** How does the category of semiskilled labor differ from unskilled labor?
- Making Generalizations** If you were a semiskilled worker, what could you do to move into a higher category of noncompeting labor?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

Newsclip

The passage of the Americans with Disabilities Act in 1990 was the first national civil rights bill for people with disabilities. The law requires all public places to be accessible. It also prohibits job discrimination against persons with physical or mental disabilities. Disputes over the meaning of the act's language have led to challenges in court.

The Disabled and the Marketplace

[I]n recent years, many courts have refused to assist people without serious disabilities. The reason is the language of the ADA, which only covers disabilities that "substantially limit" important activities such as work. Often, judges have interpreted it to exclude anybody whose impairments can be corrected.

That narrow legal reasoning has put many people with treatable disabilities in a Catch-22. Just because someone can lead a relatively normal life doesn't mean they don't face workplace discrimination as a result of their disability.

"A person is judged too disabled to qualify for work but not disabled enough to be covered by the

act," says Catherine A. Hanssens, director of the Lambda Legal Defense & Education Fund. Taken to its extreme, the employers' position would have the law cover only persons with disabilities so severe they can barely work, thereby rendering the law almost meaningless. . . .

By narrowly construing the ADA, the courts are preventing many able-bodied people from pursuing productive careers. Consider the case of Vaughn Murphy, who sued Atlanta-based United Parcel Service Inc. after the company fired him as a truck mechanic in 1994. . . . His job included road tests of the trucks he fixed, and UPS said Murphy's blood pressure exceeded federal standards for driving. Murphy counters that the driving took up only 1% of his time, so it would not have been expensive to hire another driver.

"Truck work has been my life. When you've dedicated 23 years, it's hard to up and change your occupation," says Murphy. . . . UPS attorney William Kilberg says that Murphy understates the amount of driving that his old job required and that if the Supreme Court rules against the company, it "would be a blow to a company's ability to set quality standards."

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Examining the Newsclip

- Analyzing Information** How has the government attempted to reduce the effect of discrimination against disabled workers?
- Drawing Conclusions** Have these efforts changed societal values towards the disabled? Why or why not?

Employment Trends and Issues

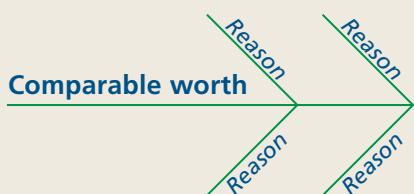
Study Guide

Main Idea

Important employment issues include union decline, unequal pay, and the minimum wage.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to the one below to explain why *comparable worth* is difficult to apply.



Key Terms

giveback, two-tier wage system, glass ceiling, comparable worth, set-aside contract, part-time worker, minimum wage, current dollars, real or constant dollars, base year

Objectives

After studying this section, you will be able to:

1. **Explain** why union membership has declined.
2. **Describe** reasons for the discrepancy in pay between men and women.

Applying Economic Concepts

Minimum Wage Have you ever worked at a job and earned exactly \$5.15 an hour? Read to find out more about the minimum wage.

Cover Story

A Two-Tier System

The plan to reorganize United Airlines is beginning to gel, and the company's employees aren't going to like it. [T]he Chicago Tribune reported that the plan was to spin off regional feeder routes into a cut-rate carrier that paid its employees far less than the industry-leading wages that United pilots and mechanics have been earning.

"The task before us is to transform United into a successful and aggressive competitor for the long term for all customers and across all markets," UAL Corp. said in a statement that confirmed at least the general thrust of the plan. . . .

The Air Line Pilots Association . . . responded with cold fury. . . . "We will oppose [management's] plan by every lawful means available to us."



Pilots' pay may show striking differences.

Important issues abound in today's labor market. The two-tier wage structure discussed in the cover story, along with other issues, have an enormous impact on morale—and consequently, productivity—in the economy.

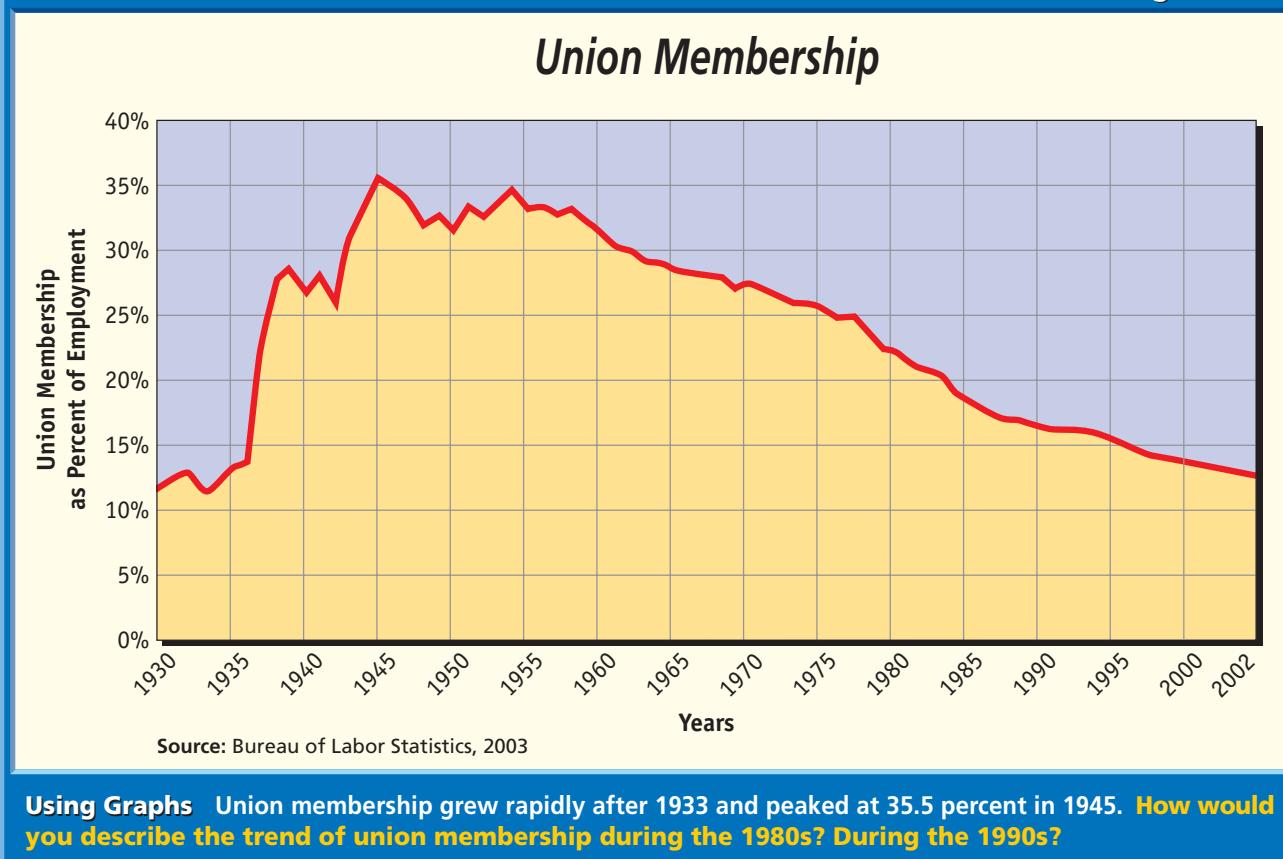
Decline of Union Influence

 A significant trend in today's economy is the decline in both union membership and influence. As **Figure 8.7** shows, 35.5 percent of nonagricultural workers were members of unions in 1945. This number fell to 21.9 percent by 1980, and then dropped to about 13 percent by 2002.

Reasons for Decline

Several reasons account for the decline in union membership and influence. The first is that many employers made a determined effort to keep unions out of their businesses. Some activists even hired consultants to map out legal strategies to fight unions. Other employers made workers part of the management team, adding employees to the board of directors or setting up profit-sharing plans to reward employees.

—The Business Journal of Portland, January 30, 2003



Using Graphs Union membership grew rapidly after 1933 and peaked at 35.5 percent in 1945. **How would you describe the trend of union membership during the 1980s? During the 1990s?**

A second reason for union decline is that new additions to the labor force—especially women and teenagers—traditionally had little loyalty to organized labor. Because many of these workers represent second incomes to families, they have a tendency to accept lower wages.

The third and perhaps most important reason for the decline is that unions are the victims of their own success. When unions raise their wages substantially above the wages paid to nonunion workers, some union-made products become more expensive and sales are lost to lower-cost foreign and nonunion producers. This forces unionized companies to cut back on production, which causes layoffs and unions to lose some of their members.

Renegotiating Union Wages

Because unions have generally kept their wages above those of their nonunion counterparts, union wages have been under pressure.

One way employers have been able to reduce union wages is by asking for givebacks from union workers. A **giveback** is a wage, fringe benefit, or work rule given up when a labor contract is renegotiated.

Some companies have been able to get rid of labor contracts by claiming bankruptcy. If a company can show that wages and fringe benefits contributed significantly to its problems, federal bankruptcy courts usually allow a company to terminate its union contract and establish lower wage scales.

Another way to reduce union salary scales is with a **two-tier wage system**—a system that keeps

high wages for current workers, but has a much lower wage for newly hired workers. As noted in the cover story, this practice is becoming widespread in industry, and often has union approval. In Ohio, for example, locals of the International Union of Electronic Workers have multilayered contracts with General Motors, Ford, and Chrysler. One contract even pays starting workers 55 percent of standard pay, and requires 17 years before a worker can reach the top scale.

Lower Pay for Women

 Overall, women face a considerable gap between their income and the income received by men. As **Figure 8.8** shows, female income has been only a fraction of male income over a 40-year period—with a 24-percentage-point gap for the most recent year.

This gap has been the subject of much study. In 1998, the President's Council of Economic

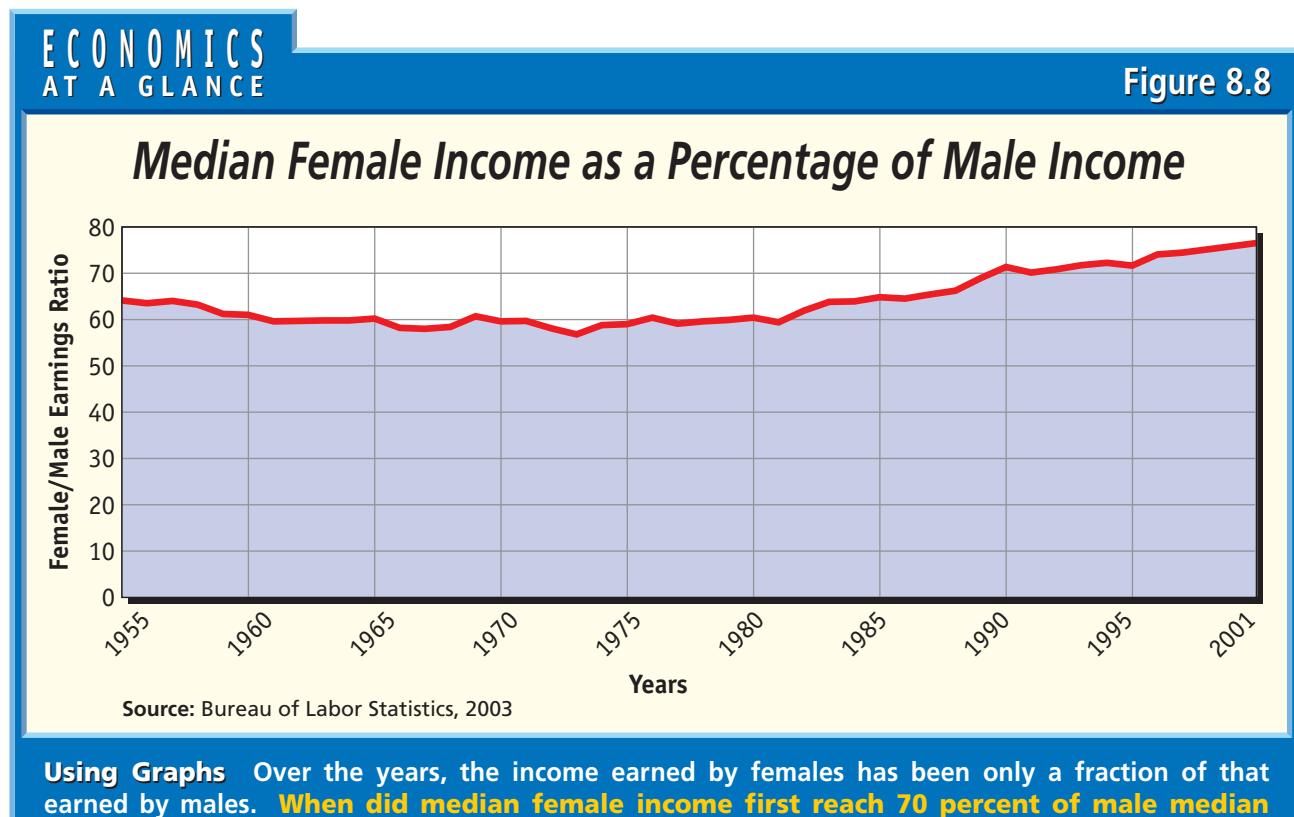
Advisors released an extensive report called *Explaining Trends in the Gender Wage Gap* that sheds light on the situation.

Human Capital Differences

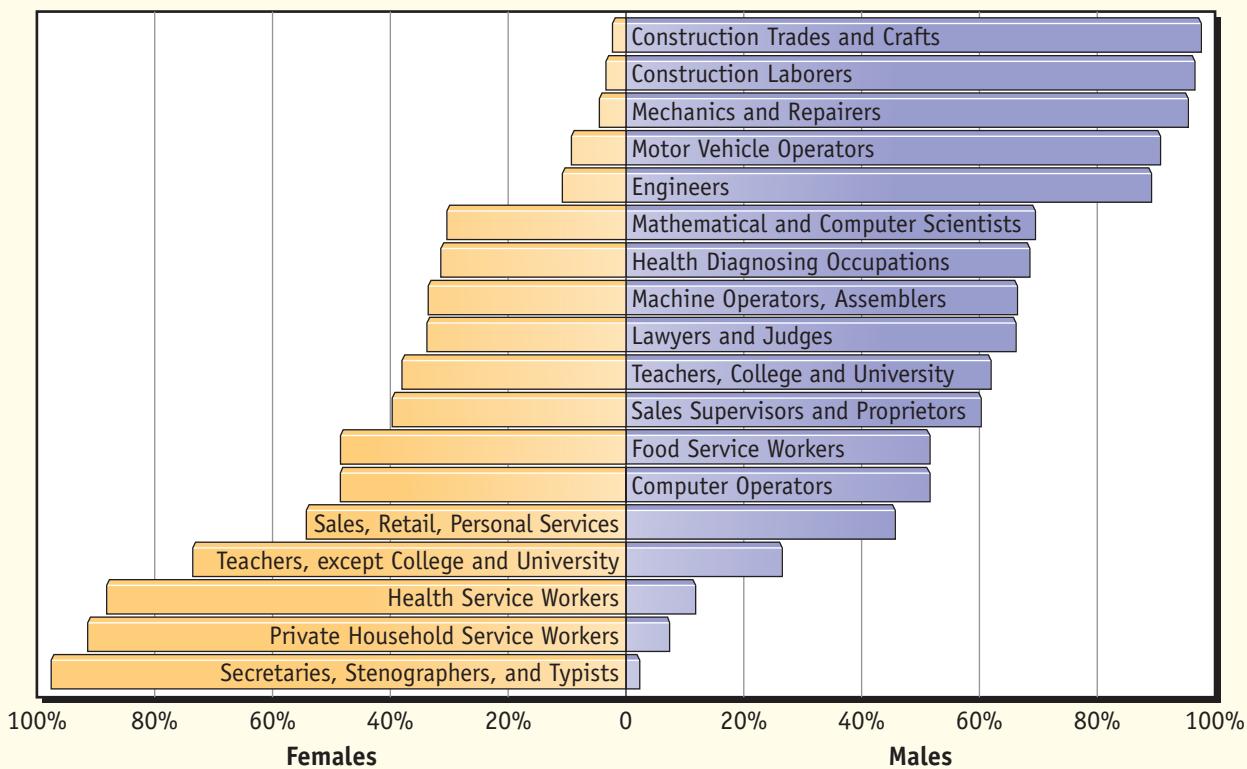
According to the report, about one-third of the gap was due to differences in the skills and experience that women bring to the labor market. For example, women tend to drop out of the labor force to raise families, whereas men often do not. The report found that working women had lower levels of education than their male counterparts. If these two factors—experience and education—were the same for both men and women, one-third of the wage gap would disappear.

Gender and Occupation

The study also concluded that slightly less than one-third of the wage gap was due to the uneven distribution of men and women among various occupations. To illustrate, **Figure 8.9** shows that



Distribution of Male and Female Jobs by Occupation



Source: Bureau of Labor Statistics, 2003

Using Graphs One of the reasons for the pay differential between the sexes is that men and women are not evenly distributed among occupations. If men tend to cluster in higher-paid occupations, and if women tend to cluster in lower-paid occupations, the average pay for men and women will differ. **In what occupations do women make up between 60 and 80 percent of the workforce?**

more men enter construction and engineering trades than do women. Likewise, women enter the private household service and office-worker occupations in relatively greater numbers than men.

As long as construction and engineering wages are higher than private household and office worker wages, men, on average, will earn more than women.

Discrimination

The study also found that more than one-third—or about 11 percentage points—of the gap

could not be explained. Accordingly, many analysts attribute this to discrimination that women face in the labor market. In fact, women and minorities often feel that their difficulties in getting raises and promotions are like encountering a **glass ceiling**, an invisible barrier that obstructs their advancement up the corporate ladder.

Legal Remedies

Two federal laws are designed to fight wage and salary discrimination. The first is the Equal Pay

Act of 1963 which prohibits wage and salary discrimination for jobs that require equivalent skills and responsibilities. This act applies only to men and women who work at the same job in the same business establishment.

The second law is the Civil Rights Act of 1964. Title VII of this act prohibits discrimination in all areas of employment on the basis of gender, race, color, religion, and national origin. The law applies to employers with 15 or more workers, although it specifically excludes religious associations and their educational institutions.

The Civil Rights Act of 1964 also set up the Equal Employment Opportunity Commission (EEOC). The EEOC investigates charges of discrimination, issues guidelines and regulations, conducts hearings, and collects statistics. If a pattern of discrimination is discovered, the government can bring suit against a company.

Comparable Worth

One measure used to close the income gap between men and women is **comparable worth**, the principle stating that people should receive equal pay for work that is different from, but just as demanding as, other types of work.

In the state of Washington, for example, a federal judge ruled that work performed by social service workers—most of whom were female—was just as demanding as some traditionally male occupations. The judge ordered the state to raise wages and give workers several years' back pay. In Illinois, job evaluators determined that the work done by highway workers was roughly equivalent to that done by nurses.

Comparable-worth decisions are not easy to make because so many factors, such as occupational hazards, educational requirements, and degree of physical difficulty must be taken into consideration.

Some people—including most economists—believe that fair and unbiased comparisons of occupations are almost impossible to make. This group also argues that comparable worth is not needed as long as people are free to obtain training and to enter the profession of their choice. Others argue that comparable worth is necessary to remove gender discrimination in the marketplace.

These issues, along with a lack of federal legislation and the reluctance of the courts to interfere with the market, have limited the popularity of comparable worth in the United States. Comparable worth is widely used in Europe and Canada, however.

Set-Aside Contracts

Another corrective measure is the government **set-aside contract**, a guaranteed contract reserved exclusively for a targeted group. The federal government, for example, requires that a certain percentage of defense contracts be reserved exclusively for minority-owned businesses.

Another example is a 1988 California law requiring that 5 percent of the state's bond contracts be set aside exclusively for women lawyers, bankers, and other females who help place the bonds with investors. Such laws ensure that states do not give all of their business to males in a male-dominated profession.

Most set-aside programs are beginning to add "graduation" clauses that "promote" minority-owned businesses out of the program once they reach a certain size or have received set-aside contracts for a certain number of years. After all, the intent of the program is to give these firms a boost, not a permanent subsidy.

CYBERNOMICS SPOTLIGHT

The End of Work?

Some analysts in the past contended that the computer age would result in less work for humans. What's happening, however, is that more people are working *more* hours. The average number of hours worked per week has increased from 40 hours in 1973 to 50 hours today. Why is this happening? One explanation is that computers don't replace human thought and endeavor, they extend it. By allowing people to communicate easily at any time from any place, computers increase the amount of time people work.

Did you know?

McDonald's Top Minorities List In a recent *Fortune* magazine report of the 50 top companies for minorities, McDonald's came out on top. According to CNN's coverage of the event, "Minorities make up more than half of the work force (52.6%) and 36 percent of the managers and other officials at the fast-food giant. There are two minorities on the company's 16-member board, and 10 of the 50 highest-paid workers are minorities. The company had the highest percentage of minority-owned franchises in the quick service food industry, and 35 percent of its purchases were from minority-owned firms."

Part-Time Workers

 One of the more remarkable trends in the labor market has been the rise in part-time employment. **Part-time workers**—or those workers who regularly work fewer than 35 hours per week—account for one out of five jobs in the U.S. economy. In some states, like North Carolina, part-time labor accounts for nearly 25 percent of the workforce.

Reasons for Growth

Part of the reason for the part-time job growth is the evolving nature of the economy. When retail stores stay open for more hours, they often need workers to fill in at odd times—and the checks received by part-time workers are often welcome additions to the family income. Also, the odd hours give some workers the opportunity to do other things, such as take college classes, that would normally interfere with the standard 40-hour workweek.

The use of part-time workers also gives employers more flexibility to schedule workers for peak periods, such as during lunch or supper at fast-food restaurants. Businesses also like the lower cost of part-time workers because they receive few of the health, retirement, and other benefits received by full-time workers. When the savings from these fringe benefits are combined with lower part-time hourly salaries, the sums can be substantial. Today, figures from the Bureau of Labor Statistics show that part-time employee wages and fringe benefits averaged slightly over \$10 per hour, as compared to more than \$20 for full-time workers.

Critics of Part-Time Employment

The arguments against part-time jobs are that wages are too low, and the hours too few, for workers to earn a decent living. In addition, no benefits are offered. Some part-time workers feel that they are being abused by the system and forced to work at inconvenient times. Others feel that the system denies full-time employment to a large number of capable workers.

Unions are especially opposed to part-time workers. The 1997 strike at United Parcel Service (UPS) was partially over this issue. According to the union, lower paid, part-time workers were routinely scheduled into four-hour shifts even though they wanted full-time employment.

The Minimum Wage

 The **minimum wage**—the lowest wage that can be paid by law to most workers—was first set in 1939 at \$.25 per hour. As **Panel A** in **Figure 8.10** shows, the minimum wage increased over time until it reached \$5.15 in 1997.

Debate Over the Minimum Wage

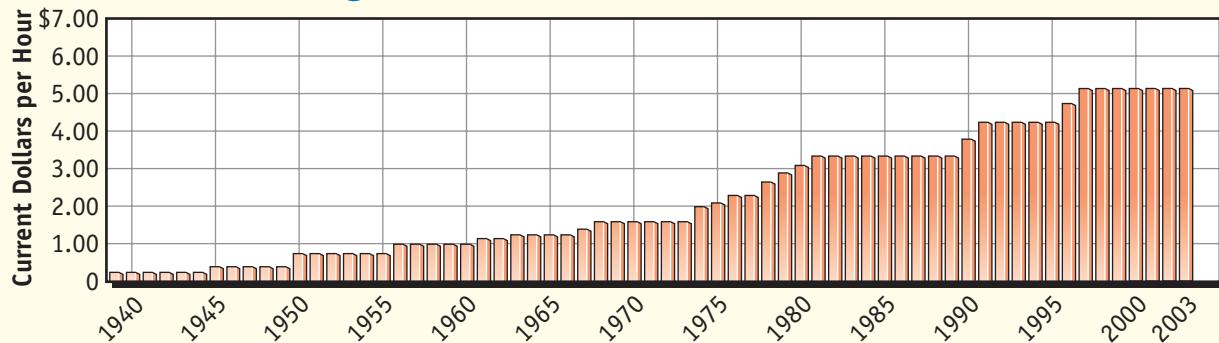
The minimum wage has always been controversial. Its original intent was to prevent the outright exploitation of workers and to provide some degree of equity and security to those who lacked the skills needed to earn a decent income.

Supporters of the minimum wage argue that these objectives—equity and security—are consistent with the economic goals of the United States. Besides, they say, the wage is not very high in the first place. Opponents of the minimum wage object to it on the grounds of economic freedom—also a U.S. economic goal. This group also believes that the wage discriminates against young people and is one of the reasons that many teenagers cannot find jobs.

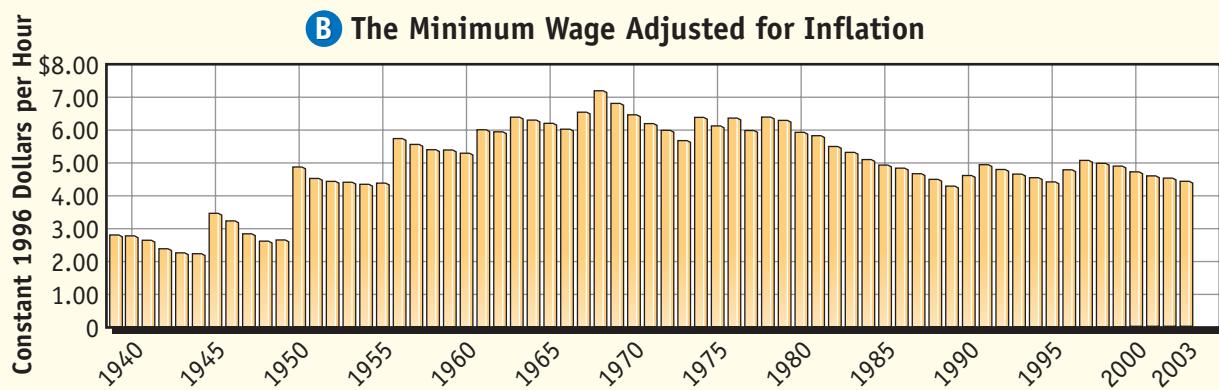
Some parts of the country have even instituted their own equivalent of a minimum wage. The city of Los Angeles, for example, has a "living wage" that is substantially higher than the federal minimum wage. Any company doing business with the city is required to pay its workers at least that amount.

The Minimum Wage

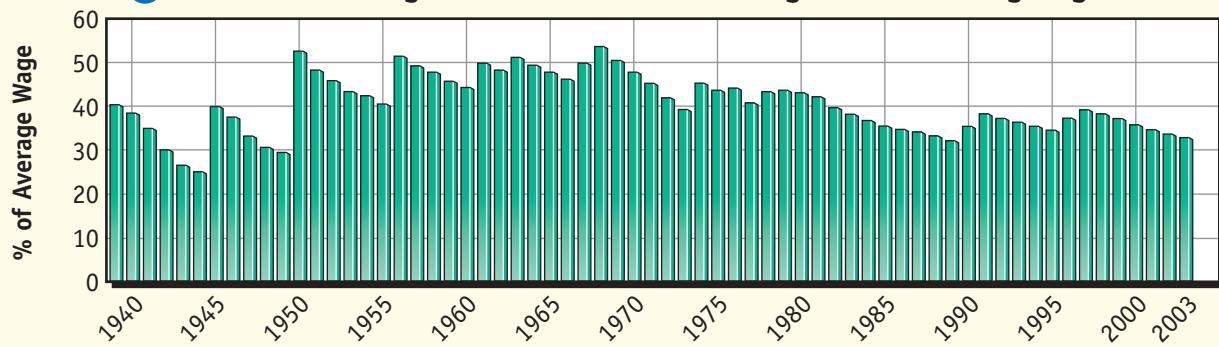
A The Minimum Wage in Current Dollars



B The Minimum Wage Adjusted for Inflation



C The Minimum Wage as a Percent of the Average Manufacturing Wage



Sources: *Statistical Abstract of the United States*, *Economic Report of the President*, various issues

Using Graphs The minimum wage is expressed in current dollars in Panel A, adjusted for inflation in Panel B, and as a percent of the average wage for workers in manufacturing in Panel C. Even though the minimum wage was \$5.15 an hour in the last five years, the minimum wage adjusted for inflation decreased. **Explain why this occurred.**

Measured in Current Dollars

Panel A in **Figure 8.10** shows the minimum wage in **current dollars**, or in dollars that are not adjusted for inflation. The minimum wage is recorded exactly as it was from 1939 to 2003.

When viewed in this manner, it seems as if the minimum wage increased dramatically over time. The figure, however, does not take into account inflation, which erodes the purchasing power of the minimum wage.

Adjusted for Inflation

To compensate for inflation, economists like to use **real or constant dollars**—dollars that are adjusted in a way that removes the distortion of inflation. This involves the use of a **base year**—a year that serves as a comparison for all other years.

Although the computations are complex, the results are not. **Panel B**, using constant base-year prices, shows that the minimum wage had relatively more purchasing power in 1968 than in any other year. As long as the base year serves as a common denominator for comparison purposes, the results would be the same regardless of the base year used.

Panel B also shows that the purchasing power of the minimum wage goes up whenever it increases faster than inflation, as it did in 1997 when the wage

went to \$5.15. However, the minimum wage remained the same through 2003 while prices went up, so the wage actually purchased a little less as time went by. As long as the minimum wage remains unchanged, and as long as inflation continues, its purchasing power will continue to decline.

Compared to Manufacturing Wages

In **Panel C**, the minimum wage is shown as a percent of the average manufacturing wage. In 1968, for example, the minimum wage was \$1.60 and the average manufacturing wage was \$3.01. If we divide the two, the minimum wage works out to be 53.2 percent of the manufacturing wage for that year.

When measured in this manner, 1968 was the peak year. After 1968, the ratio slowly declined to less than 33 percent by 2003. As long as the minimum wage stays fixed, and as long as manufacturing wages continue to go up, this ratio will continue to decline.

The minimum wage will certainly be raised again. What is not certain is when this will happen. When the minimum wage becomes unacceptably low to voters and their elected officials, Congress will increase it. Some people even want to link the minimum wage to inflation, so that the wage will automatically rise when prices rise.

Section 4 Assessment

Checking for Understanding

- Main Idea** Using your notes from the graphic organizer activity on page 211, write a definition of comparable worth in your own words.
- Key Terms** Define giveback, two-tier wage system, glass ceiling, comparable worth, set-aside contract, part-time worker, minimum wage, current dollars, real or constant dollars, base year.
- List** three reasons for the decline of unions.
- Describe** three reasons for the income gap between men and women.
- Describe** the current trends in part-time employment.

- Explain** why it is necessary to consider inflation when examining the minimum wage.

Applying Economic Concepts

- Minimum Wage** A number of arguments exist both in favor of and against having a minimum wage. With which side do you agree? Why?

Critical Thinking

- Drawing Conclusions** In your opinion, do cultural stereotypes influence the income gap between men and women?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

Chapter 8 Summary

Section 1

The Labor Movement (pages 193–198)

- Craft or trade unions, and industrial unions were established by the end of the Civil War.
- Unfavorable public attitudes existed toward labor: The Sherman Antitrust Act was used against labor and even the Clayton Act was ignored by the courts.
- Attitudes shifted in favor of labor during the Great Depression with the passage of the Norris-LaGuardia Act, the Wagner Act, and the Fair Labor Standards Act.
- Public opinion shifted against labor again after World War II. The Taft-Hartley Act in 1947 limited union activity and allowed states to pass right-to-work laws.
- The union movement was dominated by the AFL and the CIO, which merged in 1955 to form the AFL-CIO.

Section 2

Resolving Union and Management Differences (pages 200–203)

- The closed shop (now illegal), requires that employers hire only union members selected by the union. The union shop requires that an employee join the union shortly after being hired. The modified union shop gives the employee the option to join the union after being hired. The agency shop requires that workers pay dues to the union, but does not require the workers to join, even though the union represents all workers.
- When collective bargaining fails, several other methods are available to settle labor disputes, including mediation, arbitration, fact-finding, the use of injunctions, and seizure.

Section 3

Labor and Wages (pages 205–209)

- Four noncompeting labor grades are unskilled labor, semiskilled labor, skilled labor, and professional labor.
- Workers usually find it difficult to move to a higher income group because of the cost of education and training, the lack of opportunities for education and training, and lack of individual initiative.
- The traditional theory of wage determination uses the market forces of supply and demand to explain wage rates; the theory of negotiated wages argues that the relative strength of a union is a factor; signaling theory argues that certificates and diplomas are signals of ability.
- Wages also differ because of labor mobility, the cost of living, and attractiveness of work locations.



Section 4

Employment Trends and Issues

(pages 211–218)

- Union membership is declining because of anti-union activities by firms, labor force additions that have little loyalty to labor, and unions that have priced themselves out of some markets.
- Corrective measures include anti-discrimination laws, the principle of comparable worth, and set-aside contracts.
- Part-time jobs are increasing, providing flexible, low cost options to employers.
- The minimum wage has lost much of its purchasing power because of inflation. It is also falling behind when measured as a percent of the average manufacturing wage.

Chapter 8 Assessment and Activities

ECONOMICS Online



Self-Check Quiz Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 8—Self-Check Quizzes** to prepare for the chapter test.

CLICK HERE

Reviewing Key Terms

Classify each of the terms below as pro-union, antiunion, or neither.

1. boycott
2. closed shop
3. company union
4. labor mobility
5. fact-finding
6. giveback
7. grievance procedure
8. lockout
9. modified union shop
10. seizure
11. injunction
12. picket
13. right-to-work law
14. agency shop
15. strike
16. two-tier wage system
17. arbitration
18. mediation

Reviewing the Facts

Section 1 (pages 193–198)

1. **Describe** current union influence in terms of membership and workers represented by unions.
2. **Compare** the two types of unions in the post-Civil War period.
3. **Describe** the advances made by unions during the Great Depression.

4. **Outline** the progress of unions since the end of World War II.

Section 2 (pages 200–203)

5. **Describe** the four types of union arrangements.
6. **Explain** five approaches to resolving a deadlock that may occur between a union and a company's management.

Section 3 (pages 205–209)

7. **Explain** the differences between the four major categories of noncompeting labor.
8. **Explain** why it is so difficult for workers to move from one category of labor to another.
9. **Compare** the three theories of wage determination.
10. **Discuss** the reasons for regional wage differences.

Section 4 (pages 211–218)

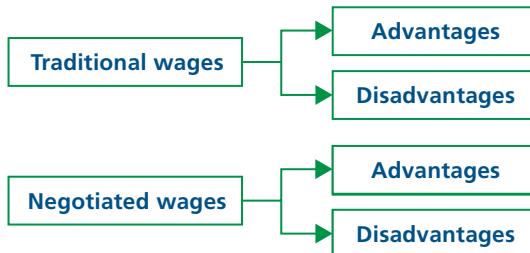
11. **Explain** why unions have lost members, as well as influence, in recent years.
12. **Describe** two corrective measures being taken to close the income gap between men and women workers.
13. **Explain** the popularity of part-time employment.
14. **Identify** three ways to evaluate the minimum wage.

Thinking Critically

1. **Making Generalizations** Unions generally argue that the best interests of workers can be served when employees are members of a union. Do you agree or disagree with this statement? Defend your answer.
2. **Analyzing Information** Some people believe that in today's economy, the theory of negotiated wages is more useful than the traditional theory of wage determination. Explain why you agree or disagree.

Chapter 8 Assessment and Activities

Create webs like the ones below to help you organize your answer.



Applying Economic Concepts

- Civilian Labor Force** As you go to and from school, take note of the various occupations around you. List at least 10 occupations, then classify them according to the four major categories of labor.
- Minimum Wage** Poll at least 10 people of various ages, asking for their opinions on the following statement: There should be no minimum wage. Compile the responses and present your findings to the class.

Math Practice

The Bureau of Labor Statistics issued these statistics on workers between the ages of 16 and 24, who were employed in July 1998: "About 7 in 8 employed youth were wage and salary workers in the private sector this summer, with retail trade (7.4 million) and services (5.8 million) the largest employers. There also were sizable numbers of youth employed in manufacturing (2.2 million) and construction (1.2 million). Government employed a total of 1.5 million young people in July. Nearly 3 in 5 of the young people with government jobs were employed in local governments."

- Total the number of individuals employed in retail, services, manufacturing, construction, and government.
- Use the data to create a circle graph that illustrates the percentages of individuals ages 16–24 in the different economic sectors.

Thinking Like an Economist

Economists think of transactions in a market economy as being voluntary, with participants evaluating their decisions *incrementally*, meaning that they evaluate the costs and benefits of every action as they go along. Use this way of thinking to explain the rise of part-time employment.

Technology Skill

Using the Internet Visit the Bureau of Labor Statistics Web site. Search and find the summary of current employment. Then rewrite the paragraph that follows. Employment (rose/fell/remained unchanged). The unemployment rate stands at (?) percent in the latest month. Average weekly hours (declined/increased/remained unchanged), and average hourly earnings (fell/rose/were unchanged) at the end of the month.

Building Skills

Evaluating Primary and Secondary Sources Economists define wages and wage rates as the price paid for labor. Variations in wages are influenced by differences in workers' skills and nonmonetary differences in jobs. Examine the cartoon below. Explain what economists mean by a "competitive" salary.



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