



UNIT  
**3**

# Economic Institutions and Issues

## CHAPTER 8

Employment, Labor,  
and Wages

## CHAPTER 9

Sources of  
Government Revenue

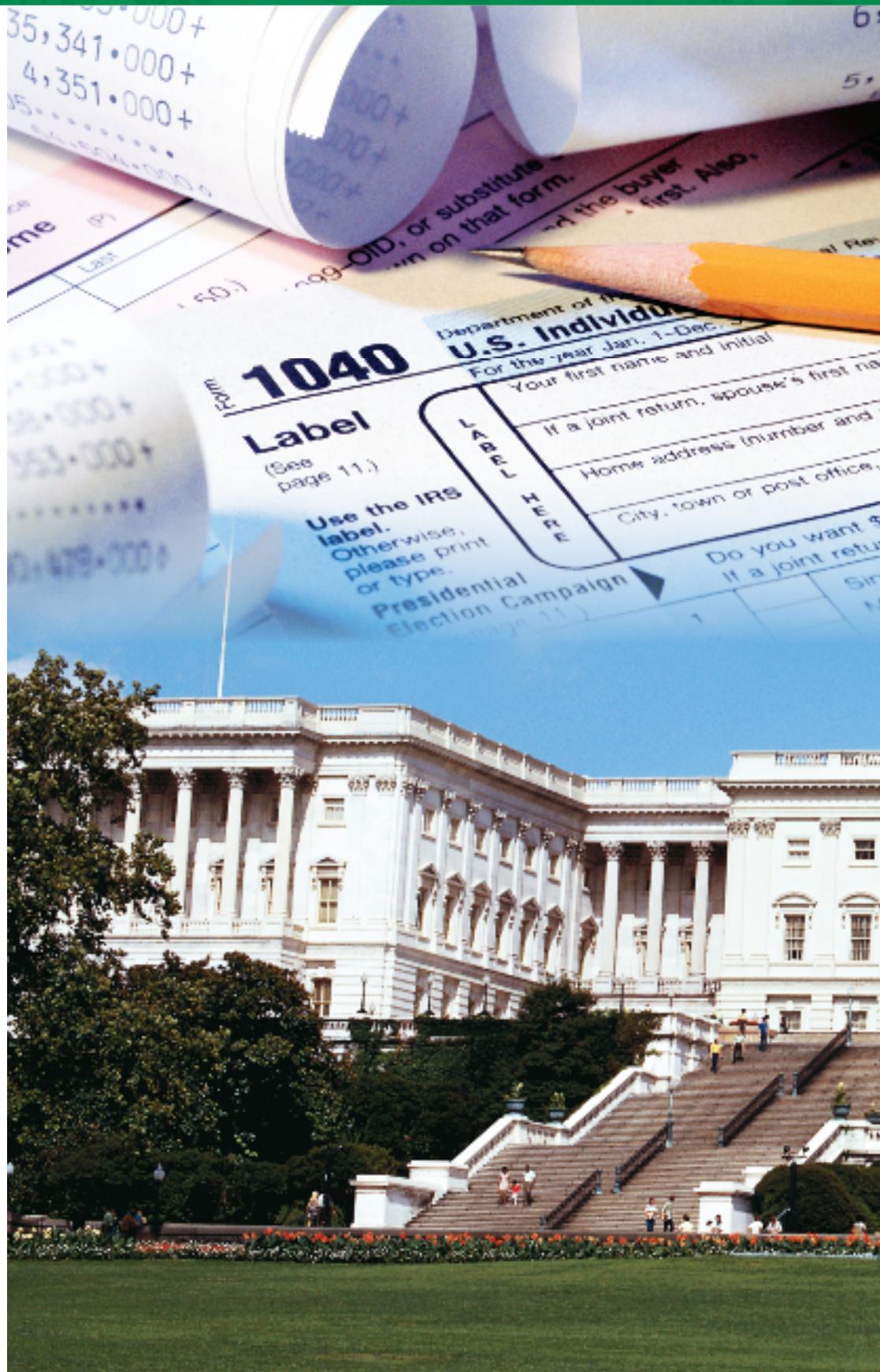
## CHAPTER 10

Government Spending

## CHAPTER 11

Financial Markets

Congress approves the  
federal budget, while  
the executive branch  
administers revenue  
collection and spending.





Larry Lee Photography/Corbis



## CHAPTER

## 8

# Employment, Labor, and Wages

## Why It Matters

Yesterday you found out that your first college choice has accepted you and offered you a scholarship to cover your tuition and books. You will still have to pay for your room and board. Today, your best friend announced that she has received a “full ride” basketball scholarship to the same college—all her expenses will be covered. Why do you think she received a larger scholarship even though your grades are much better than hers? Read Chapter 8 to find out more about labor and wages.

## The BIG Idea

The labor market, like other markets, is determined by supply and demand.

The more skills workers such as these construction workers have, the more they can expect to be paid.



**Economics ONLINE** **Chapter Overview** Visit the *Economics: Principles and Practices* Web site at [glencoe.com](http://glencoe.com) and click on *Chapter 8—Chapter Overviews* to preview chapter information.



SECTION

## 1

# The Labor Movement

## GUIDE TO READING

### Section Preview

In this section, you will find out that labor unions are organizations that attempt to improve the working conditions of their members.

### Content Vocabulary

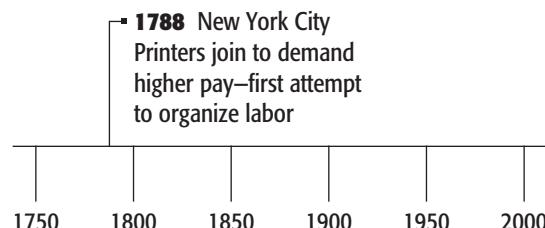
- craft union (*p. 199*)
- trade union (*p. 199*)
- industrial union (*p. 199*)
- strike (*p. 199*)
- picket (*p. 199*)
- boycott (*p. 199*)
- lockout (*p. 199*)
- company union (*p. 199*)
- Great Depression (*p. 201*)
- right-to-work law (*p. 202*)
- independent union (*p. 203*)
- closed shop (*p. 203*)
- union shop (*p. 204*)
- modified union shop (*p. 204*)
- agency shop (*p. 204*)
- civilian labor force (*p. 204*)

### Academic Vocabulary

- legislation (*p. 198*)
- prohibited (*p. 201*)

### Reading Strategy

**Sequencing** As you read this section, note major events in the history of the U.S. labor movement by creating a time line similar to the one below.



## ISSUES IN THE NEWS

—The Associated Press

### Restaurant Fined over Youth Program

Alex Ray, owner of the Common Man restaurants, has been fined by the government for a program that helped a dozen teenagers start and run their own business last summer.

Ray paid a \$2,000 fine after the Labor Department said the program violated child-labor laws. The teenagers, ages 13 to 15, worked at the Common Man Restaurant in Plymouth [New Hampshire], where they designed a business model, managed the business, scheduled fellow students to staff breakfast and made bank deposits.

Ray said the project through a program called Communities for Alcohol- and Drug-Free Youth was a huge success, but the Labor Department sent a violation notice, because kids under 16 worked before 7 A.M. ■



The restaurant owner in the news article did not intend to violate the Fair Labor Standards Act of 1938, but good intentions sometimes have unforeseen consequences. Even so, working is one of the single most important things we do. After all, how well we do, as measured by the satisfaction we get or the income we receive, affects virtually every aspect of our lives. Thus, in our

study of economics it is important to examine the way the “labor” factor of production earns its income.

We also want to study the labor movement because the United States has a rich and colorful labor history. The historical struggle between workers and employers has shaped today’s working environment, and the evolution is still continuing.



## Skills Handbook

See page R52 to learn about Sequencing Events.

# Colonial Times to the 1930s

**MAIN Idea** Early unions formed to negotiate terms for their members, but employers and courts opposed them.

**Economics & You** Do you or any members of your family belong to a union? Read on to learn about the early years of the American union movement.

Today, only one out of every eight working Americans is a member of a labor union. Even so, unions are important because they played a major historical role in helping to create the **legislation** that affects our pay and working conditions today.

## Early Union Development

In 1778 printers in New York City joined together to demand higher pay. This was the first attempt to organize labor in America. Before long, unions of shoemakers, carpenters, and tailors developed, each hoping to negotiate agreements that covered hours, pay, and working conditions. While only a small fraction of all 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.

Soon immigrants began to arrive in great numbers. Because they provided a supply of cheap, unskilled labor, they posed a threat to the unions that were working to preserve existing wage and labor standards.

In addition, public opinion was largely 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 could better negotiate with their employers on a one-to-one basis.

## Civil War to the 1930s

The Civil War led to higher prices and a greater demand for goods and services. Manufacturing expanded, and the farm population declined. Hourly workers in industrial jobs made up about one-fourth of the country's working population.

Working conditions in some industries were difficult, and hostile attitudes toward unions slowly began to soften. 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

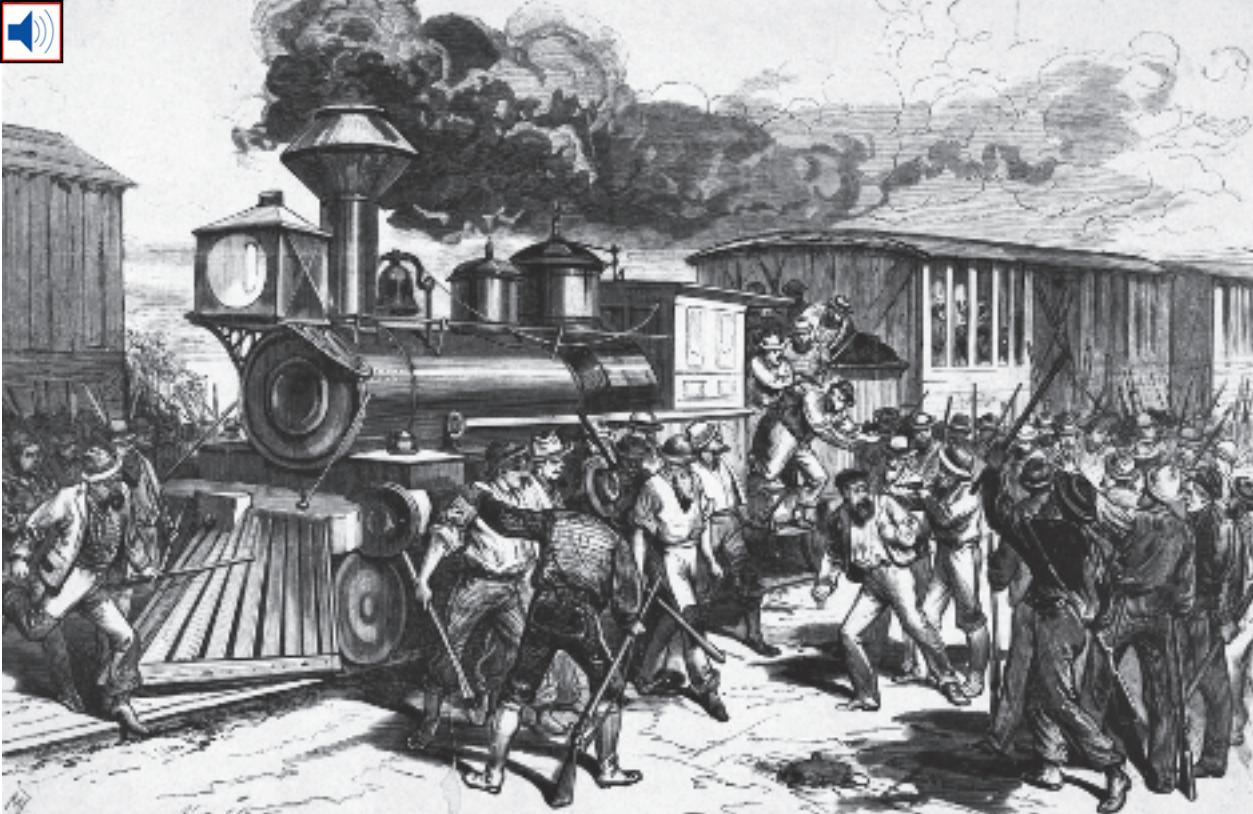
In the industrial post-Civil War period, the two main types of labor unions shown in **Figure 8.1** dominated. The first was the

**Figure 8.1** ► **Trade (Craft) and Industrial Unions**

TRADE (CRAFT) UNIONS					INDUSTRIAL UNIONS
					
Printers' union	Electricians' union	Machinists' union	Carpenters' union	Plumbers' union	All belong to the same union

► Labor unions can be categorized as either trade or industrial unions.

**Economic Analysis** *How do trade unions differ from industrial unions?*



### Labor Strikes

This woodcut shows workers and firefighters during the Baltimore and Ohio Railroad strike of 1877. **What did unions try to accomplish with strikes?**

**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.

The second type of union was the **industrial union**—an association of all workers in the same industry, regardless of the job each individual 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, job security, and better hours and working conditions. If an agreement could not be reached, workers would **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 show union support by taking their business elsewhere.

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

### Employer Resistance

Employers resented the strikes, pickets, and boycotts, so they fought unions in a number of ways. Sometimes the owners called for a **lockout**, a refusal to let employees work until they agreed to management demands.

At other times, management responded to a strike, or the threat of a strike, by hiring all new workers. Some owners even set up **company unions**—unions organized, supported, or run by employers—to head off efforts by others to organize workers.

### The Ludlow Massacre

Perhaps nothing typified such struggles more than a strike in Colorado. The United Mine Workers of America had organized a strike against a mining company owned by

**craft union** or **trade union** labor union whose members perform the same kind of work

**industrial union** labor union whose members perform different kinds of work in the same industry

**strike** union-organized work stoppage designed to make an employer meet union demands

**picket** demonstrate or march before a place of business to protest a company's actions

**boycott** refusal to buy products from an employer or company

**lockout** management refusal to let employees work until demands are met

**company union** union organized, supported, or run by an employer



John D. Rockefeller to demand better pay and working conditions. When the company forced workers out of company-owned homes, the miners and their families moved into tents set up by the union.

The strike, expected to end after a few days, instead lasted 14 months. At times, fights broke out between striking miners and company guards. The mining company also hired a private detective agency and received assistance from the Colorado National Guard.

One fight in spring 1914 turned into an all-day battle and a devastating fire. In the end, dozens of people were killed, including 2 women and 11 children. The violence, quickly called the Ludlow massacre, sparked rioting in other coal mining communities. The resulting conflict eventually claimed nearly 200 lives.

### Attitude of the Courts

Throughout this period, the courts had an unfavorable attitude toward unions. Under English common law, unions were considered conspiracies against business

and were prosecuted in the United States. Even the Sherman Antitrust Act of 1890, aimed mainly at curbing monopolies, was used to keep labor in line.

For example, in 1902 the United Hatters Union called a strike against a Danbury, Connecticut, hat manufacturer that had rejected a union demand. The union decided to apply 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 that went all the way to the Supreme Court. The Supreme Court ruled that the union had organized an illegal boycott in restraint of trade, thereby dealing 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 of 1914 helped to remedy the threat to unions by expressly exempting labor unions from prosecution under the Sherman Act.

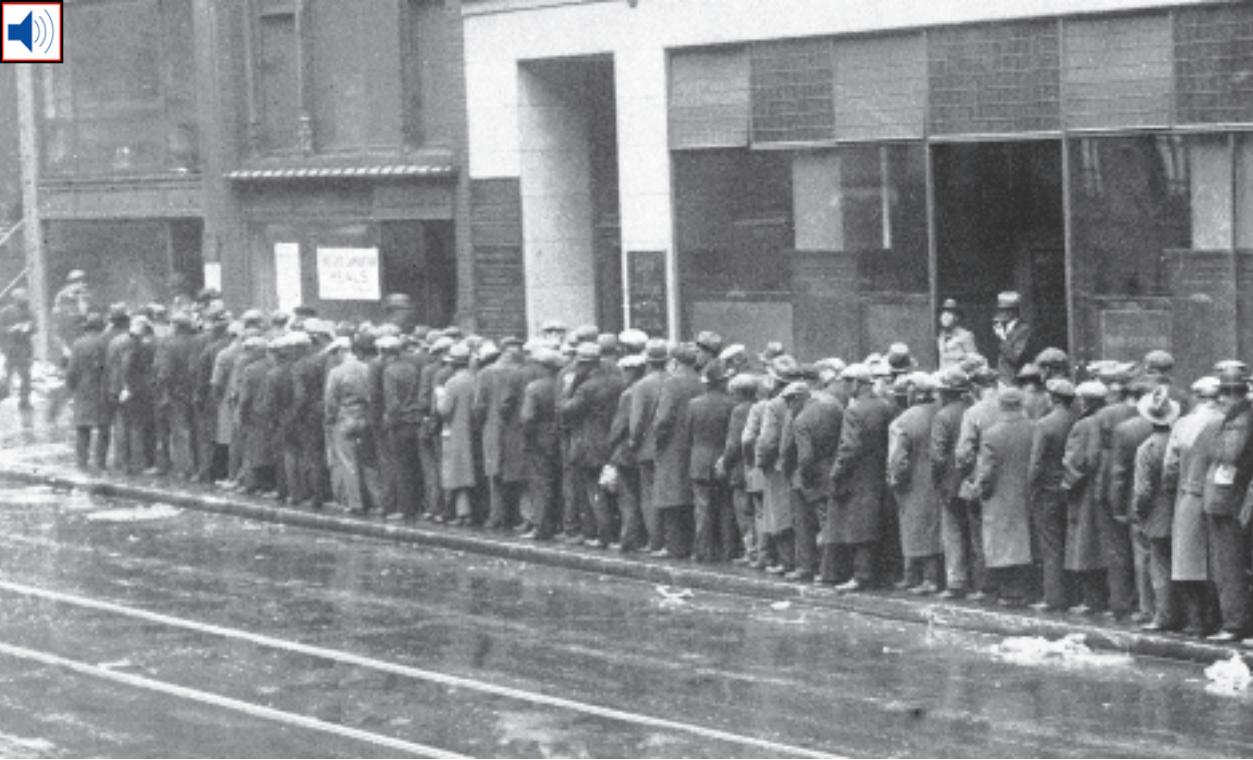
**Reading Check** **Recalling** How did trade unions and industrial unions develop?

### Antiunion Attitudes

A nationwide strike on May 3, 1886, turned violent in Chicago's Haymarket Square when strikers and police clashed.

**How did the Supreme Court view union activity?**





## Unemployment

During the Great Depression, the unemployed lined up for food and other assistance.

**What was the impact of the Great Depression on the labor movement?**

## Labor Since the 1930s

**MAIN Idea** Most of the significant labor laws in effect today were passed in the 1930s, 1940s, and 1950s.

**Economics & You** Did you try to find a job before you turned 16 but were turned down? Read to learn how early labor legislation affects you today.

During the 1930s, times were especially hard for working people who lacked unemployment insurance. In response, Congress passed a series of laws that supported organized labor. Although a backlash against labor followed, these laws provided the most important labor protections that are still in effect today.

### Labor in the Great Depression

The **Great Depression**—the worst period of economic decline and stagnation in the history of the United States—began with the collapse of the stock market in October 1929. Economic output reached bottom in 1933 and did not recover to its 1929 level until 1939. At times, as many as one in four workers was without a job. Others kept their jobs but saw pay cuts. In 1929 the average hourly manufacturing wage was 55 cents. By 1933 it plummeted to 5 cents.

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.

**Great Depression** worst period of economic decline in U.S. history, lasting from 1929 to approximately 1939

### Pro-Union Legislation

New legislation soon 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 during labor disputes.

The National Labor Relations Act, 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 could oversee and certify union election results. If a fair election resulted in a union as the employees' bargaining agent, employers had to recognize and negotiate with it.

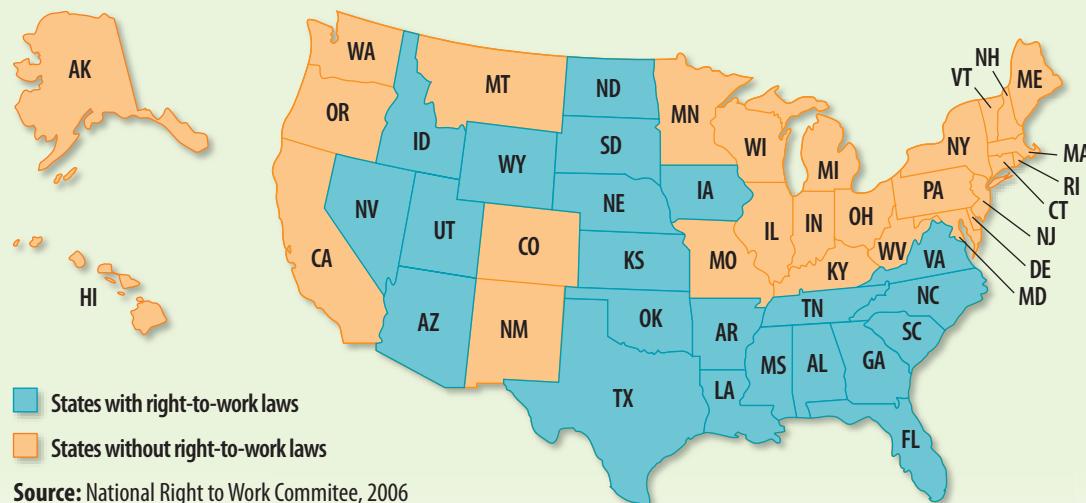
The Fair Labor Standards Act of 1938 applied to businesses that engage in interstate commerce and set the first minimum wage. It established time-and-a-half pay for overtime, which was defined as more than 40 hours per week. The act also prohibited



## Figure 8.2 ► Right-to-Work, State by State

► 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.

### Economic Analysis Which regions have the fewest states with right-to-work laws?



Source: National Right to Work Committee, 2006

**right-to-work law** state law making it illegal to require a worker to join a union

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.

### Antiunion Backlash

The union movement had grown strong by the end of World War II, but then public opinion shifted again. Some people feared that Communists had secretly entered the unions. Others were concerned over production losses due to the increased number of strikes. People began to think that management, not labor, was the victim.

Growing antiunion feelings led to the Labor-Management Relations Act, or Taft-Hartley Act, of 1947. The act had a tough antiunion provision known as Section 14(b) that allows 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.

If a state does not have a right-to-work law, new workers may be required to join an

existing union as a condition for employment shortly after being hired. If a state has a right-to-work law, then new hires can decide for themselves whether or not they want to join the union—even if the overwhelming majority of workers at the company support the union. Today, the 22 states shown in **Figure 8.2** have taken advantage of Section 14(b) to pass right-to-work laws.

Other legislation was aimed at stopping criminal influences that had begun to emerge in the labor movement. The most important law was the Labor-Management Reporting and Disclosure Act, or Landrum-Griffin Act, of 1959. This act required unions to file regular financial reports with the government and limited the amount of money union officials could borrow from the union.

### The AFL-CIO

The American Federation of Labor (AFL) began in 1886 as an organization of craft or trade unions. It later added several industrial



unions. The craft 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 a separate group headed by John L. Lewis, the president of the United Mine Workers of America.

The AFL and Lewis did not get along, so Lewis and his industrial unions were expelled in 1937 and 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).

In 2005, a disagreement over the best way to spend union funds resulted in a breakup of the AFL-CIO. Initially, the Service Employees International Union (SEIU), the largest union in the federation, left with several other large unions to form the rival Change to Win Coalition. Other unions soon followed, leaving the labor movement split for the first time since 1955.

It is still too early to tell how this split will affect the power of organized labor. The remaining AFL-CIO unions want to focus their efforts on lobbying politicians. The Change to Win Coalition wants to focus its efforts on recruiting new union members.

## Independent Unions

Although the AFL-CIO is still a major force, other unions are also important in the labor movement. Many of these are **independent unions**—unions that do not belong to the AFL-CIO or the Change to Win Coalition—such as the Brotherhood of Locomotive Engineers. Other examples of independent unions are the United Campus Workers at the University of Tennessee and the Virginia Public Service Workers Union.

**Reading Check Analyzing** Why did the Great Depression have such a strong and lasting impact on the labor movement?

## Organized Labor Today

**MAIN Idea** Unionized workers can participate in several types of union arrangements.

**Economics & You** Have you ever noticed "Union Made" labels on clothing or other items? Read on to learn more about the different kinds of unions that make these products.

Unionized workers participate in several kinds of union arrangements. In addition, union participation in the labor force varies widely from one industry to another.

### Kinds of Union Arrangements

The most restrictive kind of union arrangement is the **closed shop**, in which an 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. In some cases, union members could get family members and friends hired as long as the union controlled membership access, which most employers strongly opposed.

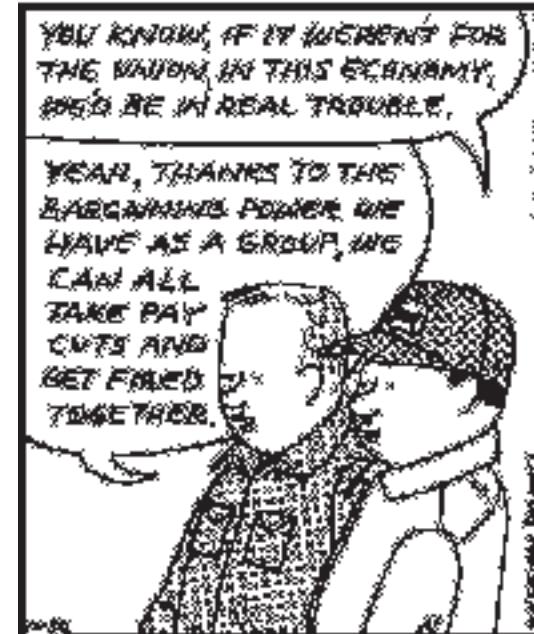
This kind of union arrangement was common in the 1930s and early 1940s. However, the Taft-Hartley Act of 1947 made the closed shop illegal for all companies involved in interstate commerce.

### Economics ONLINE

**Student Web Activity** Visit the *Economics: Principles and Practices* Web site at [glencoe.com](http://glencoe.com) and click on *Chapter 8—Student Web Activities* for an activity on labor unions.

**independent union** labor union not affiliated with the AFL-CIO or the Change to Win Coalition

**closed shop** arrangement under which workers must join a union before they are hired

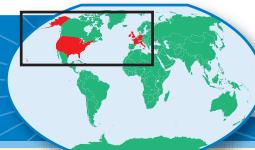


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**Power of Unions**  
While unions remain a strong force, their bargaining power often is limited by economic conditions.  
*What recent event may change the power of unions?*



# The Global Economy & YOU



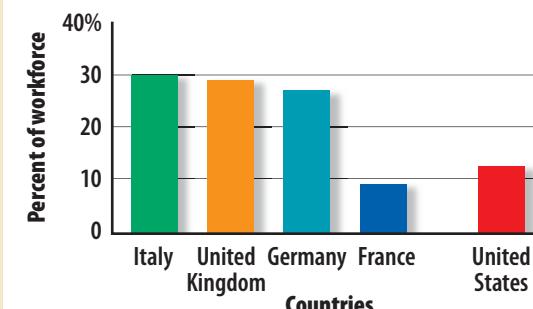
## The Union Safety Net Unravels

If you have a part-time job, you are part of the reason that unions have declined. But don't blame yourself—other factors are causing this trend as well. In fact, union membership has declined both in the United States and around the globe. In 2005, 12.5 percent of American wage and salary workers were union members, down from the most recent peak of 20.1 percent in 1983. Although union membership is higher in Europe—26.3 percent—experts predict the downward trend to continue there as well, with union membership falling under 20 percent by 2010.

Many factors have contributed to the decline of unions, including the increase in part-time workers, the rise in the number of women in the workforce, the

growth in the number of white-collar workers, and the expansion of service industries. In addition, the trend toward smaller workplaces has hurt unionization.

### EU's Four Largest Countries—Percentage of Union Workers



Sources: Federation of European Employees, Bureau of Labor Statistics

#### **union shop**

arrangement under which workers must join a union after being hired

#### **modified union shop**

arrangement under which workers have the option to join a union after being hired

#### **agency shop**

arrangement under which nonunion workers must pay union dues

#### **civilian labor force**

noninstitutionalized part of the population, aged 16 and over, either working or looking for a job

Because most firms in the United States today are directly or indirectly engaged in interstate commerce, few, if any, closed shops exist.

The second union arrangement is the **union shop**, 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.

Another union arrangement is the **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.

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

An agency shop is also known as "fair share." Unions like to use this term to remind everyone that the dues the non-

members pay to the union are used on behalf of all the workers, whether they are union members or not.

## Unionized Workers in the Labor Force

Today, the United States has a population of about 300 million people. Approximately half of the people belong 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 the prison population, other institutionalized persons, and members of the armed forces.

Approximately 12.5 percent of working Americans are union members. An additional 1.2 percent of working people are represented by unions in the form of the agency shop discussed above.

Union membership is uneven among the different demographic groups in the United States. Men are more likely than women to be union members, although the gap has narrowed considerably in the last 20 years. Older workers, especially those over the age of 45, are more likely to be organized



than younger workers. African Americans are more likely than others to belong to unions, while Asian Americans and Hispanic Americans are least likely to join. Finally, the rate of union memberships among full-time workers is more than twice as high as the rate for part-time workers.

Union membership also differs considerably by state. Five states—Alaska, Hawaii, Michigan, New Jersey, and New York—all have union membership rates above 20 percent, which means that one in five workers is unionized. Five other states—Arkansas, North Carolina, South Carolina, Virginia, and Utah—all have membership rates of less than five percent.

As shown in **Figure 8.3**, local, state, and federal governments have the highest rate of unionization. In fact, the rate of union membership in all levels of government is nearly three times that of workers in manufacturing. The food services industry, where most teenagers work, is the least likely to be unionized.

**Reading Check** **Contrasting** How do the types of union arrangements differ?

## SECTION

# 1

## Review

### Vocabulary

- Explain** the significance of craft union, trade union, industrial union, strike, picket, boycott, lockout, company union, Great Depression, right-to-work law, independent union, closed shop, union shop, modified union shop, agency shop, and civilian labor force.

### Main Ideas

- Stating** What is the purpose of labor unions?
- Explaining** Why did the AFL-CIO break up?
- Describing** Use a graphic organizer like the one below to describe the different types of union arrangements.



Figure 8.3 ►

### Union Membership and Representation by Industry

Industry	Percentage of employed workers who are:	
	Members of unions	Represented by unions
Local government	41.9	45.8
State government	31.3	35.0
Federal government	27.8	33.1
Utilities	27.4	28.6
Transportation and warehousing	23.4	24.4
Telecommunications	21.4	22.6
Motion pictures and sound recording	15.0	15.5
Construction	13.1	13.8
Manufacturing	13.0	13.7
Education and health services	8.3	9.4
Mining	8.0	9.5
Retail trade	5.2	5.8
Agriculture and related	2.7	3.0
Finance and insurance	1.6	2.1
Food services and drinking places	1.3	1.5

**Source:** Bureau of Labor Statistics, 2006

► Labor unions are most influential in the service industries, which include government, communications, public utilities, and transportation.

**Economic Analysis** *Which industries have few union members?*

### Critical Thinking

- The BIG Idea** How do the major legislative acts discussed in the section reflect the rise and decline of the labor movement?
- Making Inferences** Why has union support in the United States gone through cycles of resistance and strong support? Write a short essay explaining your opinion.
- Comparing and Contrasting** Which of the four kinds of union arrangements would you prefer, and why?
- Analyzing Visuals** Look at Figure 8.2 on page 202. What does the pattern of right-to-work and non-right-to-work states imply about the strength of labor unions?

### Applying Economics

- Civilian Labor Force** How would joining the armed services affect your participation in the civilian labor force?



# Profiles in Economics



*To Chávez and the farm workers he represented, La Causa (The Cause) was about something much bigger than themselves. According to Chávez, "The consumer boycott is . . . a gate of hope through which [farm workers] expect to find the sunlight of a better life for themselves and their families."*

## César Chávez (1927–1993)

- led the only successful union to organize farmworkers
- posthumously awarded the Presidential Medal of Freedom in 1994, the highest honor given to civilians

### iSí, se puede!

César Chávez was born in Yuma, Arizona. Like that of many farmworkers, his life was grueling and impoverished. As a boy, he and his family worked all day in the fields picking fruits or vegetables. They moved from place to place throughout the year, forcing César to drop out of school in eighth grade.

Farmworkers who tried to organize for safer working conditions, better pay, and benefits were often harassed by farm owners and police. Some were even sprayed with agricultural poisons. With farms spread so far apart, it was difficult to organize strikes by migrant workers. But Chávez believed "it can be done."

Chávez joined the Community Service Organization (CSO) and began helping people with everyday tax, immigration, and education concerns. In 1962 he set up the National Farm Workers Association (NFWA). For three years, Chávez traveled all over California, discussing problems and goals with farm workers.

### The Grape Boycott

When the Agricultural Workers Organizing Committee (AWOC), another farmworkers group, orchestrated a strike against the Delano table grape growers in 1965, Chávez and the NFWA decided to join their efforts. A year later, the two groups became the United Farm Workers (UFW). Chávez mobilized thousands of churches and student activists across the country to boycott grapes. At the peak of the boycott, table grape shipments were down by 24 percent in the top 10 North American markets, and more than 14 million people had participated.

The boycott's astounding success led to historic contracts between the UFW and the Delano growers in 1969. Chávez and his team had won union recognition, higher wages, a health plan, and other concessions. Yet for all of his labor struggles for others, Chávez never made more than \$5,000 a year.

### Examining the Profile

1. **Summarizing** How did Chávez initially try to approach farmworkers?
2. **Applying Information** How would a successful boycott impact the demand for grapes?



SECTION

2

# Wages and Labor Disputes

## GUIDE TO READING

### Section Preview

In this section, you will learn that unions and management negotiate contracts through a process known as collective bargaining.

### Content Vocabulary

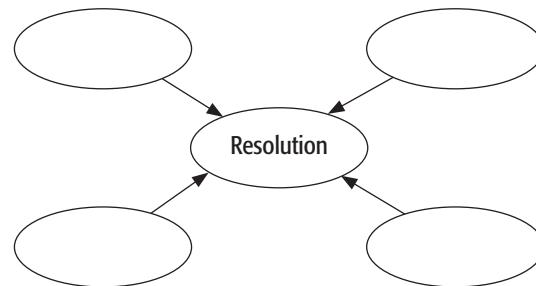
- wage rate (p. 208)
- unskilled labor (p. 208)
- semiskilled labor (p. 208)
- skilled labor (p. 208)
- professional labor (p. 208)
- market theory of wage determination (p. 209)
- equilibrium wage rate (p. 209)
- theory of negotiated wages (p. 210)
- seniority (p. 210)
- signaling theory (p. 210)
- collective bargaining (p. 211)
- grievance procedure (p. 211)
- mediation (p. 212)
- arbitration (p. 212)
- binding arbitration (p. 212)
- fact-finding (p. 212)
- injunction (p. 212)
- seizure (p. 212)

### Academic Vocabulary

- anticipate (p. 211)
- distorted (p. 212)

### Reading Strategy

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



## ISSUES IN THE NEWS

—National Public Radio

### NHL Shakes Off Lockout, Long Layoff

[The] NHL owners took a very hard line with the Player's Association and in the end the players accepted a big salary cut and a per team salary cap. Now the NHL has reduced its spending on players' salaries to about 54 percent of revenue, down from about 75 percent.

[The NHL] says it's going to save up to 400 million dollars. Twice as many teams are going to be in the black. Fans are returning to the rinks, but there's still some operating issues for teams in smaller markets. They're sort of facing a choice, do we lose five or \$10 million or do we spend up to the salary cap and compete? ■



Over the years, many disputes have occurred between labor and management. Sometimes employees take action against their employer, as during the 2005 transit worker strike in New York City that shut down buses and subways. Sometimes the employer takes action against its employees, as during the 2004 National Hockey League (NHL) player lockout that cancelled the professional hockey season for a full year.

Most labor disputes occur over pay and working conditions. If a dispute results in an actual work stoppage, both sides stand to lose enormous sums of money. As a result, and regardless of the reason for the dispute, the deliberations to end it are usually intense. While the NHL was finally able to settle its labor dispute through negotiation, there are other ways to resolve a deadlock.

**wage rate**

prevailing pay scale for work performed in an occupation

**unskilled labor**

workers not trained to operate specialized machines and equipment

**semiskilled labor**

workers who operate machines that require a minimum amount of training

**skilled labor**

workers who are trained to operate complex equipment and require little supervision

**professional labor**

workers with a high level of training, education, and managerial skills

**Skills Handbook**

See page R53 to learn about **Comparing Data**.

## Wage Determination

**MAIN Idea** Different occupations and levels of training are rewarded with different wages.

**Economics & You** When you choose an occupation, do you want to earn as much income as possible? Read on to learn how your choices can result in a higher wage.

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 sometimes even within the same occupation. There are four explanations as to why this happens.

### Noncompeting Categories of Labor

One explanation recognizes four broad categories of labor that have different levels of knowledge and skills. The highest pay goes to people in jobs that require the most skills and training. Because workers in one category do not compete with those in other categories, wages differ.

The first category is **unskilled labor** and consists of workers in jobs that do not require people with special training and skills. People in these jobs work primarily with their hands at tasks such as picking fruit or mopping floors.

The second category comprises **semiskilled labor**—workers in jobs that

require enough mechanical skills to operate machines for which they need a minimum amount of training. These workers may operate basic equipment such as electric floor polishers, cleaning equipment, lawnmowers, and other machines that call for a modest amount of training.

The third category is **skilled labor** and consists of workers who operate complex equipment and perform most of their tasks with little supervision. These workers have a higher investment in education, knowledge, and training. Examples include carpenters, electricians, tool and die makers, computer technicians, and computer programmers.

The final category is **professional labor**, or those individuals that have the highest level of knowledge-based education and managerial skills. Examples include teachers, doctors, scientists, lawyers, and top managers such as corporate executives.

If you examine the occupations shown in **Figure 8.4**, you will see that the income each occupation earns is closely associated with these four categories of labor. For example, semiskilled workers, such as transportation and material movers, generally receive more than unskilled workers in the food-service occupations. Likewise, the professional workers in legal and managerial occupations earn more than any of the other occupations in the figure.

**Figure 8.4**

### Median Weekly Earnings by Occupation and Union Affiliation

- Weekly earnings are significantly higher for workers in highly skilled occupations or with union representation.

**Economic Analysis** *Why is the earnings gap between union and nonunion workers smaller in managerial occupations than in other occupations?*

Occupation	Represented by unions	Nonunion workers
Legal occupations	\$1,147	\$1,042
Management occupations	1,137	1,076
Computer and mathematical	1,009	1,141
Education, training, and library	913	710
Protective service occupations	896	568
Transportation and material moving	721	508
Office and administrative support	689	528
Sales and related occupations	623	622
Building and grounds, cleaning, maintenance	528	378
Food preparation and serving related	439	350

Source: Bureau of Labor Statistics, 2006



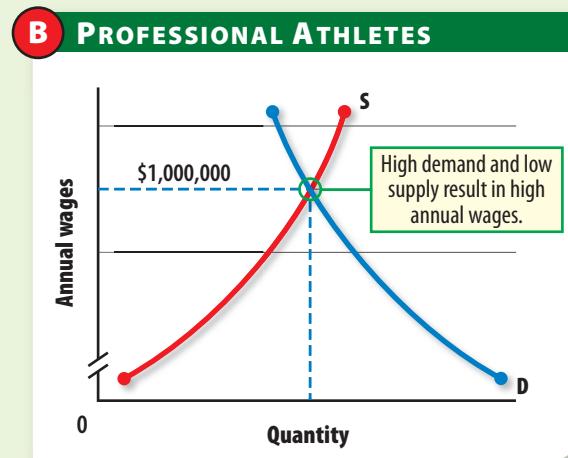
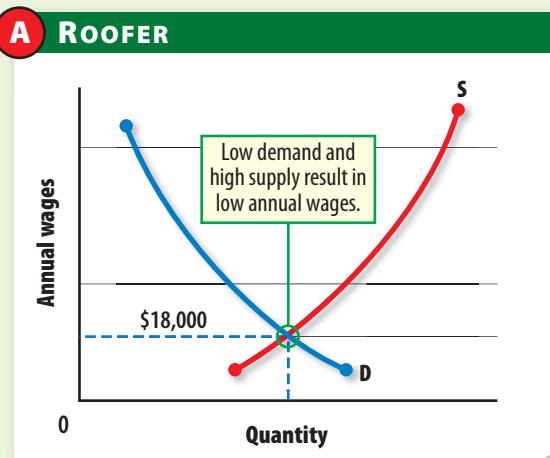
## Figure 8.5 ▶ Market Theory of Wage Determination

### Graphs In Motion

See StudentWorks™ Plus  
or [glencoe.com](http://glencoe.com).

- The market theory of wage determination explains how the market forces of supply and demand determine the equilibrium wage rate. Panel A shows what happens when a relatively large supply of roofers 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.

**Economic Analysis** *How does this theory differ from the theory of negotiated wages?*



### Market Theory of Wage Determination

Another explanation for the differences in pay many people receive is based on the **market theory of wage determination**. This theory states that the supply and demand for a worker's skills and services determine the wage or salary.

For example, if there is a low demand for roofers but a relatively large supply, the result would be relatively low wages for roofers. If conditions are reversed, so that the demand is high and supply is low, then wages would be much higher. This describes the market for the services of professional athletes. In this market, a small supply of talent combined with relatively high demand results in higher wages.

You can see this interaction of supply and demand in **Figure 8.5**. In each market, 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.

Exceptions to the market theory may appear to exist at certain times. Some unproductive workers may receive high wages because of family ties or political influence. Highly skilled workers may receive low wages because of discrimination based on their race or gender.

**market theory of wage determination**  
explanation of wage rates relying on theory of supply and demand

**equilibrium wage rate**  
wage rate leaving neither a surplus nor a shortage in the market

## Did You Know?

**Million-Dollar Paychecks** The pay for top CEOs reflects the high demand for the best business leaders in the nation. Their base salary actually may not be all that high. Yet CEOs usually pocket a variety of extras, such as retirement benefits, bonuses, stock options, and—for some—tax reimbursements. Add all this together, and total compensation can easily reach into the millions of dollars.



**Signaling Theory** People who enter the workforce with a college degree can expect higher pay. **What signal does a degree send to a potential employer?**

**theory of negotiated wages** explanation of wage rates based on the bargaining strength of organized labor

**seniority** length of time a person has been on a job

**signaling theory** theory that employers are willing to pay more for people with certificates, diplomas, and other indicators of superior ability

## 5 Personal Finance Handbook

See pages R16–R19 for more information on education.

## Theory of Negotiated Wages

The third approach to wage rate determination recognizes the power of unions. The **theory of negotiated wages** states that the bargaining strength of organized labor is a factor that helps to determine wages. A strong union, for example, may have the power to force higher wages on some firms because the firms would not be able to afford work interruptions in case of a threatened strike.

Figure 8.4 on page 208 helps validate the theory of negotiated wages. With only one exception, the figure shows that workers who are represented by unions receive weekly salaries that are higher than those of nonunion workers.

One important factor for unions 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, even if they do not have better skills.

## Signaling Theory

The fourth explanation for differences in wage rates is based on **signaling theory**. This theory states that employers are willing to pay more to people with certificates, degrees, and other indicators that “signal” superior knowledge or ability. For example, a sales firm might prefer to hire a college graduate with a major in history than a high school graduate who excelled in business courses. While this may seem odd, some firms view the degree as a signal that the individual possesses the intelligence, perseverance, and maturity to succeed.

You might hear from friends that they did not need their college degree to do the job they currently have—as if their education was not important. They overlook the signaling theory, which helps explain *why* they got the job in the first place.

✓ **Reading Check Explaining** What is the difference between the market theory of wage determination and the theory of negotiated wages?



**Theory of Negotiated Wages** Unions sometimes threaten with a boycott to get wage concessions. **What factor is necessary for effective bargaining?**



# Resolving Labor Disputes

**MAIN Idea** There are a number of different ways to resolve a labor dispute if collective bargaining fails.

**Economics & You** Have you ever bargained with someone to get something you wanted? Read on to find out how unions do the same thing to get the wages and benefits they want for their workers.

When organized labor negotiates with management, disputes are bound to happen. Both sides can use collective bargaining to minimize such disputes. If this fails, they can turn to mediation, arbitration, fact-finding, injunction and seizure or, in extreme cases, presidential intervention.

## Collective Bargaining

Labor-management relations usually require **collective bargaining**—negotiations that take place between labor and management over issues such as pay, working

hours, health care coverage, and other job-related matters. During collective bargaining, elected union officials represent workers, and company officials in charge of labor relations represent management. Collective bargaining requires compromise from both parties, and the discussions over issues 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 because the costs of failure are so high. Workers, for example, still have to make regular payments on car loans and mortgages, and companies don't want to lose customers to other businesses. In short, everyone has a big stake in resolving labor issues.

**collective bargaining**  
process of negotiation between union and management representatives over pay, benefits, and job-related matters

**grievance procedure**  
provision in a labor contract that outlines how future disputes and disagreements will be resolved

## CAREERS

### Labor Relations Specialist

#### The Work

- \* Formulate labor policy, oversee industrial labor relations, and negotiate collective bargaining agreements
  - \* Coordinate grievance procedures between unions, workers, and management
  - \* Handle complaints that result from contract disputes
- \* Ability to be patient, fair-minded, and persuasive, and to function under pressure
  - \* College courses in labor law, collective bargaining, labor economics, labor history, and industrial psychology
  - \* Many positions require graduate studies in industrial or labor relations

#### Qualifications

- \* Knowledge of fair wages and salaries, benefits, pensions, labor law, collective bargaining trends, and union and management practices

#### Earnings

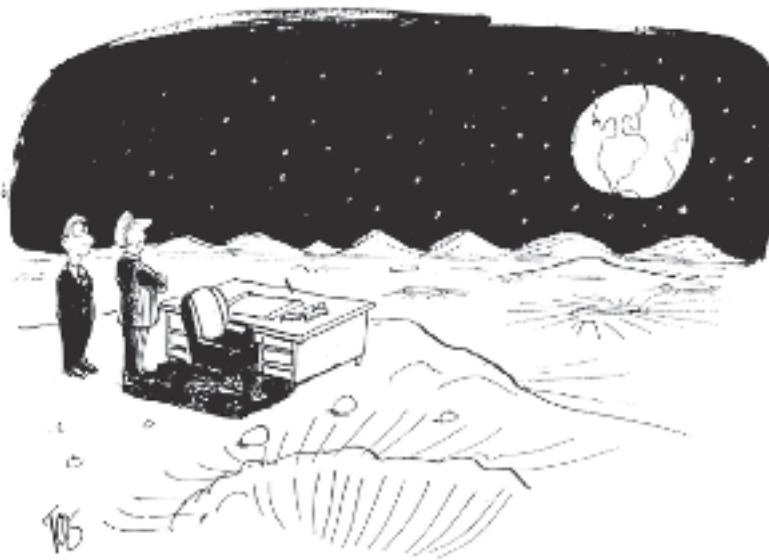
- \* Median annual earnings: \$93,895

#### Job Growth Outlook

- \* Faster than average



Source: *Occupational Outlook Handbook, 2006–2007 Edition*



Arbitration is finding its way into areas beyond labor-management relations. Today, for example, most credit card companies require disputes with cardholders to be solved by an arbitrator rather than in the courts. This means that a credit card holder can no longer sue the credit card company in the event of a dispute because 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 of the fact-finding committee.

## 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 popular 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. Because both sides must agree to any final decision the arbitrator makes, this type of negotiation is also called **binding arbitration**.

**"A good negotiator can stand back and gain perspective."**

**Mediation** Mediators need to objectively consider the viewpoints of all involved parties in their decisions **Why would unions and management agree to mediation?**

**mediation** process of resolving a dispute by bringing in a neutral third party

**arbitration or binding arbitration** agreement by two parties to place a dispute before a third party for a binding settlement

**fact-finding** agreement between union and management to have a neutral third party collect facts about a dispute and present nonbinding recommendations

**injunction** court order issued to prevent a company or union from taking action during a labor dispute

**seizure** temporary government takeover of a company to keep it running during a labor-management dispute

## Injunction and Seizure

A fourth way to settle labor-management disputes is through injunction or seizure. During a dispute, one of the parties may request 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—but without a labor agreement.

Under extreme circumstances, the government may resort to **seizure**—a temporary takeover of operations—while the government negotiates 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. While rarely used, this can be effective if the appeal has broad public support. The president also can fire federal workers. In 1981 President Ronald Reagan fired striking air traffic controllers because they were federal employees 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.

**Reading Check Summarizing** In what ways can labor and management resolve disputes?



**Intervention** In 1981 President Reagan replaced striking air traffic controllers. **Why did the president think this step was necessary?**

## SECTION 2

## Review

### Vocabulary

- Explain** the significance of wage rate, unskilled labor, semiskilled labor, skilled labor, professional labor, market theory of wage determination, equilibrium wage rate, theory of negotiated wages, seniority, signaling theory, collective bargaining, grievance procedure, mediation, arbitration, binding arbitration, fact-finding injunction, and seizure.

### Main Ideas

- Describing** Use a graphic organizer like the one below to describe the four approaches to wage determination.

Method	Characteristics
Skill level	
Market theory	
Negotiated theory	
Signaling theory	

- Discussing** How do mediation, arbitration, and fact-finding differ from other ways to resolve labor disputes?

### Critical Thinking

- The BIG Idea** How does the market theory of wage determination reflect the forces of supply and demand?
- 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?
- Interpreting** If you were a semiskilled worker, what could you do to move into a higher category of noncompeting labor?
- Analyzing Visuals** Look at Figure 8.5 on page 209. The graphs show wage determination based on demand and supply. What might the demand and supply curves look like for a lawyer or for a person working in a fast-food restaurant?

### Applying Economics

- 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?



# CASE STUDY

## Harley-Davidson

### Revving It Up

Since its founding in 1903, Harley-Davidson Motor Company has survived wartime economies, the Great Depression, overseas competition from Japanese manufacturers, and in 1985 the threat of bankruptcy. When it went public in 1986, a new era began. Harley tackled problems of global competition and the need for U.S. expansion. More importantly, it broke away from the adversarial model of management versus union by creating a “circle organization based around the core processes at Harley—create demand, produce product, and provide support.”

### Partners in Business

Harley-Davidson’s unique partnership style of management allied with labor was labeled the High Performance Work Organization (HPWO). The strategy minimizes red tape and calls on employees for leadership, responsibility, and ingenuity. Workers provide input at every stage of the manufacturing process.

The absence of the “us against them” mentality so often found in labor relations—coupled with a true sense of ownership by unionized workers—has motivated Harley employees to work toward

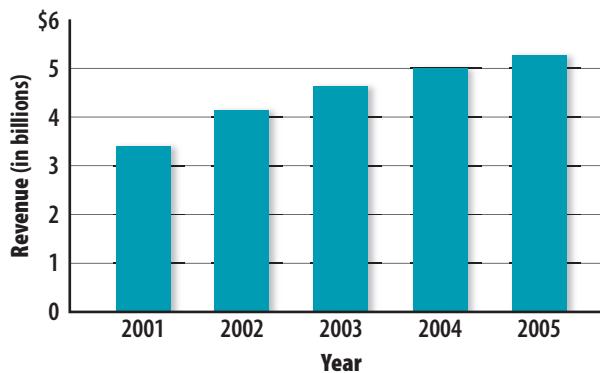


a common goal. In addition, the process has lowered the company’s costs, allowing it to create new jobs and expand operations.

### Happy Workers, Humming Hogs

The HPWO is paying off for the motorcycle manufacturer, which in 2004 was named one of America’s “100 Best Places to Work” by *Fortune* magazine. Employees and shareholders alike have cause for celebration. Since its turnaround in 1986, the company has experienced tremendous growth and reaped impressive profits. Harley-Davidson now sells motorcycles in over 60 countries. In 2006 it opened its first retail store in China. Now Chinese bikers donned in leather can buy a true American icon. Bandana sold separately.

HARLEY-DAVIDSON REVENUES, 2001–2005



Source: harley-davidson.com

### Analyzing the Impact

- 1. Summarizing** What change in business practices helped Harley-Davidson boost production and profits?
- 2. Drawing Conclusions** Harley-Davidson also made a commitment to using only U.S. workers and parts suppliers. How might this commitment help or hinder the company? Explain.

SECTION  
**3**

# Employment Trends and Issues

## GUIDE TO READING

### Section Preview

In this section, you will learn that important employment issues include union decline, unequal pay, and the minimum wage.

### Content Vocabulary

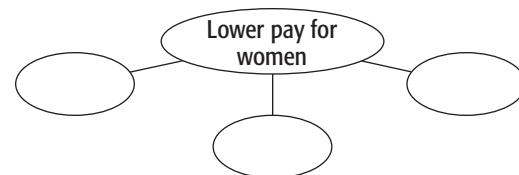
- giveback (p. 217)
- two-tier wage system (p. 217)
- glass ceiling (p. 219)
- set-aside contract (p. 219)
- minimum wage (p. 219)
- current dollars (p. 219)
- constant dollars (p. 221)
- real dollars (p. 221)
- base year (p. 221)

### Academic Vocabulary

- trend (p. 216)
- equivalent (p. 219)

### Reading Strategy

**Explaining** As you read the section, complete a graphic organizer similar to the one below to explain why women face an income gap.



## ISSUES IN THE NEWS

*—The Oregonian*

### Foreign Exchange at Minimum Wage

Four decades ago . . . Congress created a student exchange program intended to burnish America's worldwide reputation. The idea was simple: College students would visit for a few months, take a job, and return to their native lands imbued with affection for the red, white and blue.

Today, that initiative [is] a source of cheap labor for hotels, ski resorts and restaurants. Mt. Bachelor hired 30 exchange students from Peru for the winter, paying them \$7.50 an hour. Timberline Lodge, at Mount Hood, employed 20 students from Chile and also paid them the Oregon minimum wage.

The tourism industry says it needs the cheap work force to keep prices down. In [such a] tight labor market, . . . the lures of a free ski pass and minimum wage are no longer enough for local ski bums, who can find longer-term jobs for better wages in town. ■



Important issues abound in today's labor market. While some workers are faced with layoffs when factories close, other industries have problems filling all their available jobs. This is especially true for those positions that pay only federal or state minimum wages, such as some of the resort jobs in the news story.

Difficulties in finding enough qualified workers to fill temporary jobs at the minimum wage is just one issue facing the national economy. Workers have seen a decline of unions, which limits their ability to influence wages, while women have to deal with differences in pay in the labor market.



## Skills Handbook

See page R36 to learn about determining Cause and Effect.

# Decline of Union Influence

**MAIN Idea** Labor unions have been losing their influence and power ever since the 1940s.

**Economics & You** You learned earlier about the rise of unions. Read on to learn about the decline of unions today.

A significant trend in today's economy is the decline in union membership and influence. As **Figure 8.6** shows, 35.5 percent of nonfarm workers were union members in 1945. This number has dropped since then to about 12.5 percent by 2006.

## Reasons for Decline

Several reasons account for this decline. The first is that many employers have made a determined effort to keep unions out of their businesses. Some companies hire consultants to map out legal strategies to fight unions. Others try to head off the formation of a union by making workers part of the management team, adding employees

to the board of directors, or setting up profit-sharing plans to reward employees.

A second reason for union decline is that new additions to the labor force—especially women and teenagers—traditionally have had little loyalty to organized labor. In addition, more Americans are working in part-time jobs to help make ends meet. People who work a second job have less time to join or even support a union.

Perhaps the most important reason is that unions are the victims of their own success. When union wages are higher than those of nonunion workers, union-made products become more expensive than those of foreign and nonunion producers.

## Renegotiating Union Wages

Because unions have generally kept their wages above those of nonunion workers, union wages have been under pressure to come down. In fact, in recent years, there have been almost as many news reports of

**Figure 8.6** ►

## Union Membership



**Source:** Bureau of Labor Statistics, 2005

- Union membership grew rapidly after 1933 and peaked at 35.5 percent in 1945.

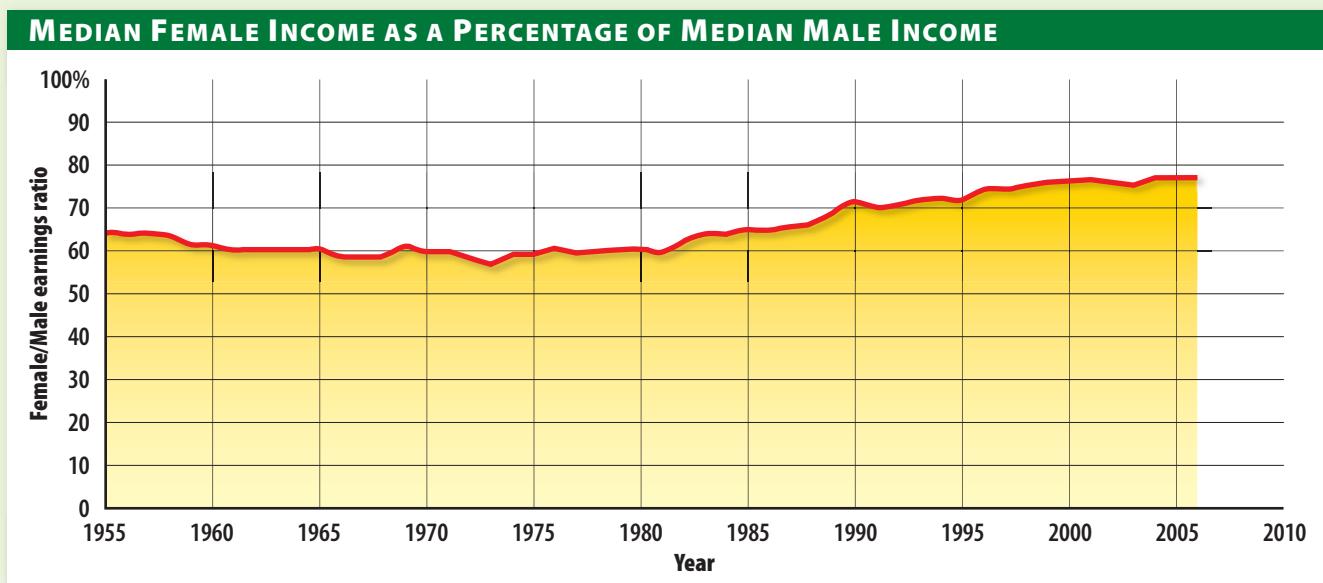
**Economic Analysis** *How would you describe the trend of union membership during the last decade?*



## Figure 8.7 ► Gender and Income

- Over the years, the income earned by females has been only a fraction of that earned by males.

**Economic Analysis** *When did median female income first reach 70 percent of male median income?*



**Source:** Bureau of Labor Statistics, 2006

unions fighting to maintain wage levels as there were reports of union wages rising.

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 were 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 management to terminate union contracts 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 lower wage for newly hired workers. This practice is becoming widespread and often has union approval.

**Reading Check** **Identifying** Why do successful unions create problems for themselves?

## Lower Pay for Women

**MAIN Idea** Men are generally paid more than women because of differences in skills, the types of jobs they choose, and discrimination.

**Economics & You** Are you or anyone in your family concerned about a job for which men are paid more than women? Read to find out about laws that will help correct the situation.

**giveback** wage, fringe benefit, or work rule given up when renegotiating a contract

**two-tier wage system** wage scale paying newer workers a lower wage than others already on the job

Overall, women face a substantial gap between their income and the income received by men. As Figure 8.7 shows, female income has been only a fraction of male income over a 50-year period.

## Human Capital Differences

About one-third of the male-female income gap is 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 more often than men. Working women also



tend to have lower levels of education than their male counterparts. If these two factors—experience and education—were the same for men and women, about one-third of the wage gap would disappear.

The distribution of men and women in various occupations as reported by the Bureau of Labor Statistics is shown in **Figure 8.8**. As long as construction and engineering wages are higher than personal care and office worker wages, on average, men will earn more than women.

## Gender and Occupation

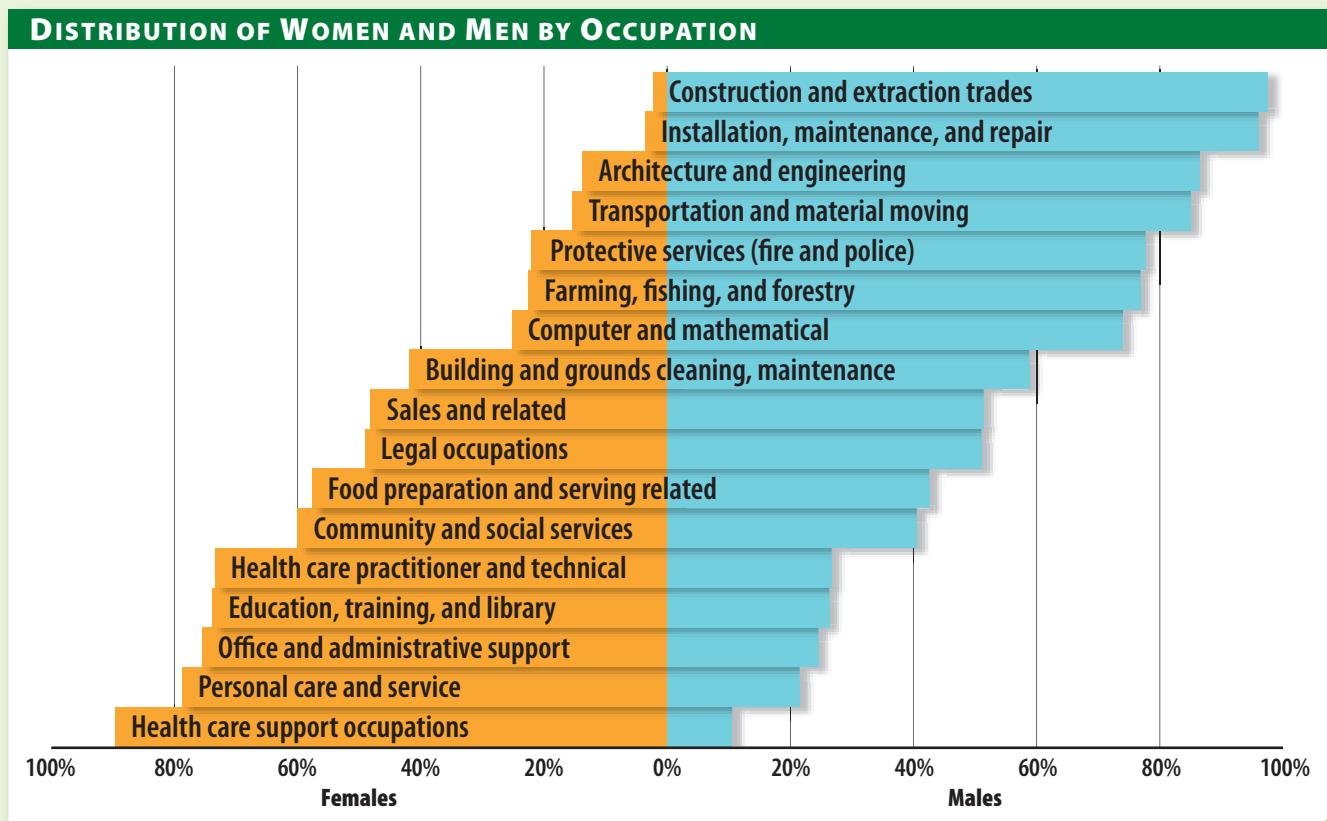
Slightly less than one-third of the wage gap is due to the uneven distribution of men and women among various occupations. For example, more men work in higher-paying construction and engineering trades than women. Likewise, more women work in lower-paying household service and office occupations than men.

## Discrimination

Finally, slightly more than one-third of the gap cannot be explained by specific reasons. Economists attribute this portion of differences in income to discrimination that women face in the labor market. In fact, women and minorities often encounter difficulties in getting raises and promotions

**Figure 8.8** ►

## Gender and Occupation



Source: Bureau of Labor Statistics, 2006

- One of the reasons for the difference in pay between men and women is their uneven distribution among occupations.

**Economic Analysis** *In which occupations do women make up between 60 and 80 percent of the workforce?*



that are like reaching 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.

The Civil Rights Act also set up the Equal Employment Opportunity Commission (EEOC). The EEOC investigates charges of discrimination, issues guidelines and regulations, conducts hearings, and collects statistics. The government can sue companies that show patterns of discrimination.

## Market Remedies

Another way to overcome unfair hiring practices is by reserving some market activity for minority groups. One example is the government **set-aside contract**, a guaranteed contract reserved for a targeted group. The federal government, for example, requires that a certain percentage of defense contracts be reserved exclusively for minority-owned businesses. Some state governments do the same for state contracts.

Many set-aside programs include a “graduation” clause that “promotes” 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. Such limits are set because the program is intended to give these firms an initial boost, not a permanent subsidy.

**Reading Check** **Synthesizing** What are similarities between the Equal Pay Act and set-aside contracts?

## The Minimum Wage

**MAIN Idea** The minimum wage has lost purchasing power over time because it was fixed at \$5.15 while prices were rising.

**Economics and You** Have you or any of your friends ever had a job that paid exactly \$5.15 an hour? Read on to learn why this wage does not buy as much as it did in the past.

The **minimum wage**—the lowest wage that can be paid by law to most workers—was intended to prevent the exploitation of workers and to provide some degree of equity and security to those who lacked the skills needed to earn a decent income. First set at \$.25 per hour in 1939, the minimum wage increased to \$5.15 by 1997.

## Debate Over the Minimum Wage

The minimum wage has always been controversial. Supporters of the minimum wage argue that the objectives of equity and security are consistent with U.S. economic goals. Besides, the wage is not very high in the first place. Opponents object to it on the grounds of economic freedom, another 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 instituted their own equivalent of a minimum wage. For example, the “living wage” of Los Angeles 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.

## Current Dollars

**Panel A** in **Figure 8.9** on the following page illustrates the minimum wage in **current dollars**, or dollars not adjusted for inflation, from 1939 to 2006. In this view the minimum wage appears to have increased dramatically over time. However, the figure does not account for inflation, which erodes the purchasing power of the minimum wage.

**glass ceiling** seemingly invisible barrier hindering advancement of women and minorities in a male-dominated organization

**set-aside contract** guaranteed contract or portion of a contract reserved for a targeted group, usually a minority

**minimum wage** lowest legal wage that can be paid to most workers (*also see page 58*)

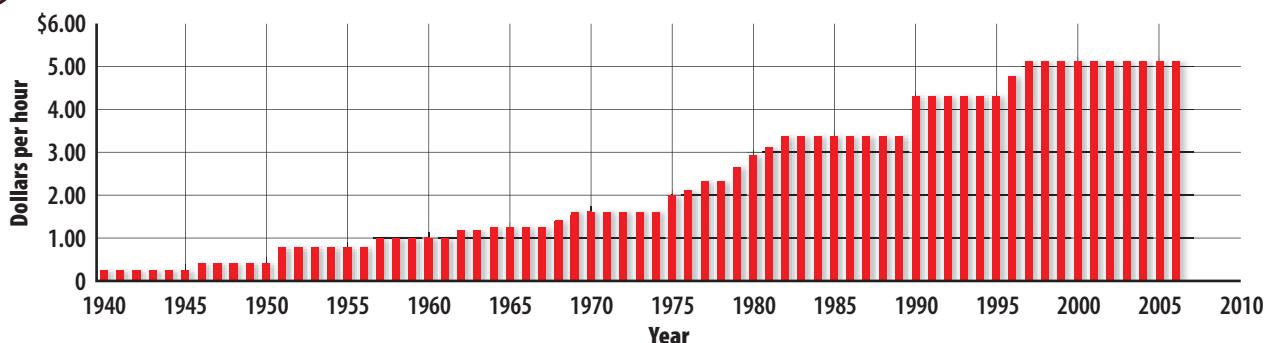
**current dollars** dollar amounts or prices that are not adjusted for inflation

## Figure 8.9 ▶ The Minimum Wage

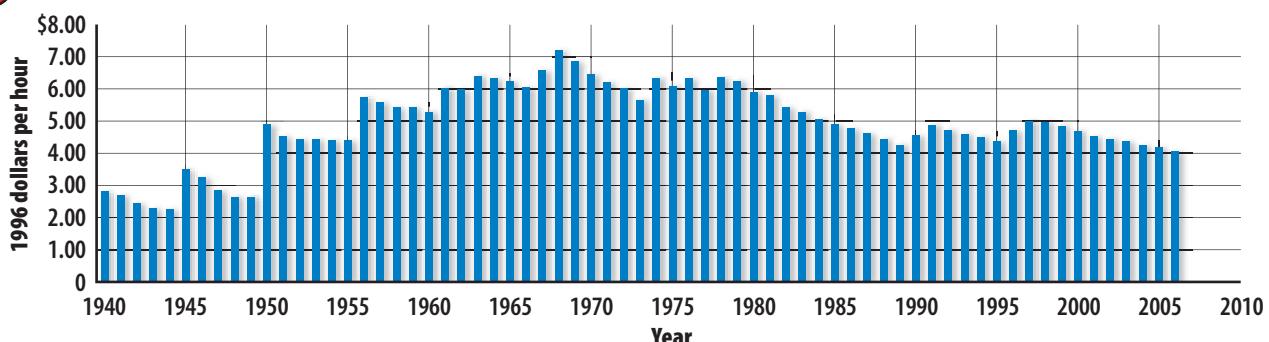
► The minimum wage is expressed in current dollars in Panel A, adjusted for inflation in Panel B, and as a percentage of the average wage for workers in manufacturing in Panel C. The minimum wage has been fixed at \$5.15 since 1997.

**Economic Analysis** How does the minimum wage compare to average manufacturing wages?

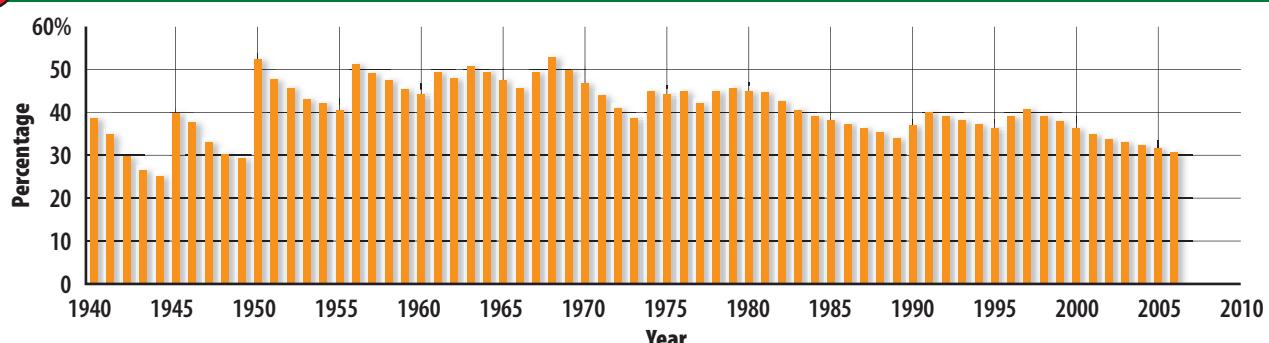
### A THE MINIMUM WAGE IN CURRENT DOLLARS



### B THE MINIMUM WAGE ADJUSTED FOR INFLATION



### C THE MINIMUM WAGE AS A PERCENTAGE OF THE AVERAGE MANUFACTURING WAGE



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



## 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 the wage increases faster than inflation. This was the case in 1997, when the wage was increased to \$5.15. However, the minimum wage remained the same through 2006 while prices went up during the same time period. This means that the wage actually purchased a little less each year. As long as the minimum wage remains

unchanged and inflation continues, the purchasing power of the wage will continue to decline.

**real dollars or constant dollars**  
dollar amounts or prices that have been adjusted for inflation

**base year** year serving as point of comparison for other years in a price index or other statistical measure

## Manufacturing Wages

**Panel C** shows the minimum wage as a percentage of the average manufacturing wage. In 1968, for example, the minimum wage was \$1.60 and the average manufacturing wage \$3.01, or 53.2 percent of the manufacturing wage for that year. The ratio peaked in 1968 and then slowly declined. As long as the minimum wage stays fixed and manufacturing wages 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.

✓ **Reading Check Summarizing** What is the difference between current dollars and real dollars?

SECTION

# 3

## Review

### Vocabulary

- Explain** the significance of giveback, two-tier wage system, glass ceiling, set-aside contract, minimum wage, current dollars, real or constant dollars, and base year.

### Main Ideas

- Listing** List three ways firms renegotiate union contracts by using a graphic organizer like the one below.

Renegotiating Union Contracts	
Givebacks	

- Identifying** What are the reasons for the income gap between men and women?
- Explaining** Why is it necessary to consider inflation when examining the minimum wage?

### Critical Thinking

- The BIG Idea** Have labor unions outlived their usefulness? Why or why not?
- Synthesizing Information** A number of arguments exist both in favor of and against having a minimum wage. With which side do you agree? Why? Explain your answer in a brief paragraph.
- Analyzing Visuals** Look at Figure 8.9 on page 220. When was the purchasing power of the minimum wage highest? When was it lowest?

### Applying Economics

- Minimum Wage** Search the employment ads in your local or regional newspaper and list at least five jobs for which you qualify. Include the advertised salary for each job. Explain why each wage is higher, lower, or the same as the current federal minimum wage.



# BusinessWeek NEWSCLIP

For more than a century, unions have fought hard for benefits many workers today take for granted—an 8-hour workday, paid vacations, and health care insurance. Unions, however, have now declined in both membership and influence.

## Twilight of the UAW

For more than two decades, the United Auto Workers (UAW) has grudgingly allowed Detroit carmakers to slash jobs as they have struggled to keep pace with the onslaught from foreign rivals. That's what UAW President Ron Gettelfinger agreed to when he signed off on General Motors Corp.'s buyout of more than 40,000 jobs at the No. 1 carmaker and its former parts unit, bankrupt Delphi Corp. Where the union has always drawn the line is on bedrock issues: wages and benefits for workers and retirees.

This time, though, that line won't hold. GM's buyouts are the beginning, not the end, of the concessions the union will have to make over the next few years. . . .

What's going on is nothing less than the slow death of what was once the country's most powerful industrial union. Despite years of relentless global pressure, the UAW has been able to maintain some of the best blue-collar posts in the U.S.

But like lumbering GM itself, the union failed to realize what it would take to compete in a world

economy. In the 1980s and 1990s, it fought concessions that would have helped U.S. carmakers fend off imports. . . . Like GM and Ford, it's paying the price today. . . .

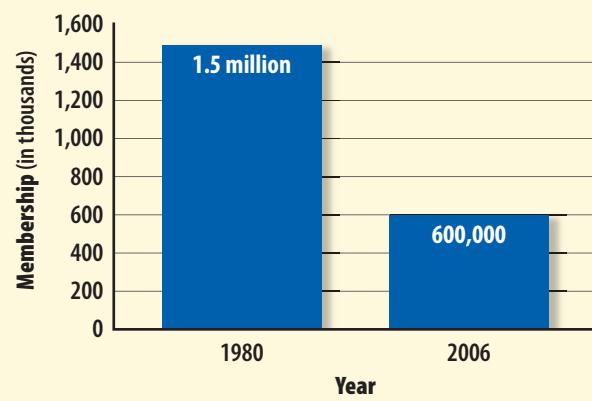
The UAW's setbacks highlight a broader challenge faced by blue-collar America. Just as union bargaining muscle helped make the middle class, so too does its weakening signal the stiffer barriers less-skilled workers face in today's globalized economy. . . .

There's another buzzsaw coming: cars from China. Every big automaker is expanding production in the Chinese market, and analysts expect most to start exporting vehicles to the U.S. in a few years.

—Reprinted from *BusinessWeek*



### UAW MEMBERSHIP



Source: *BusinessWeek*

### Examining the Newsclip

- 1. Summarizing** On what two issues did the UAW refuse to negotiate in the past?
- 2. Determining Cause and Effect** How has globalization led to the decline of the UAW?

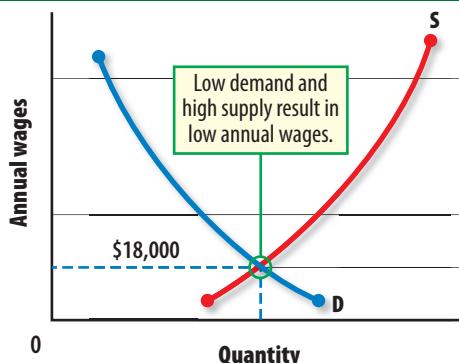


Study anywhere, anytime!

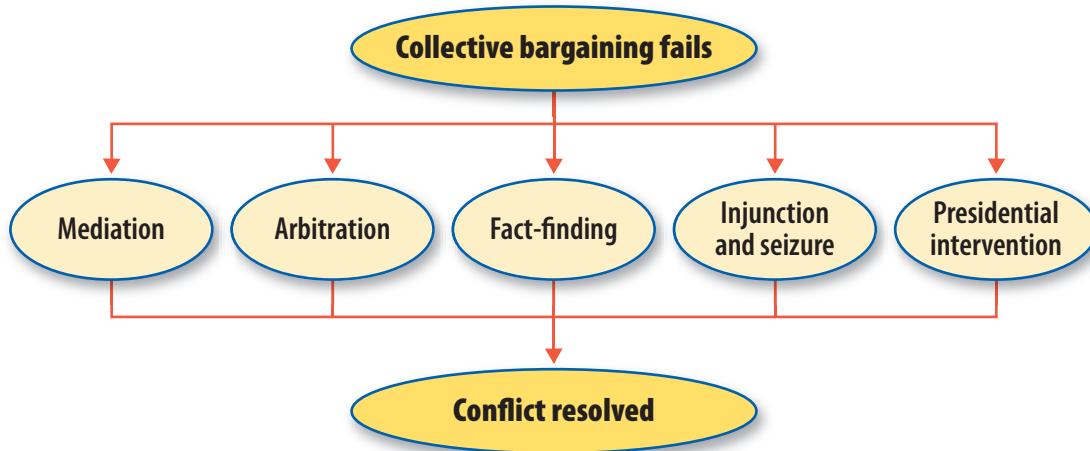
Download quizzes and flash cards to your PDA from [glencoe.com](http://glencoe.com).

- **Wage Determination** Wage rates can be explained in three ways. The market theory of wage determination relies on the tools of supply and demand. The theory of negotiated wages recognizes the influence of unions in bargaining for higher wages. The signaling theory states that employers are willing to pay higher wages to people with diplomas and other signals of ability.

### MARKET THEORY OF WAGE DETERMINATION

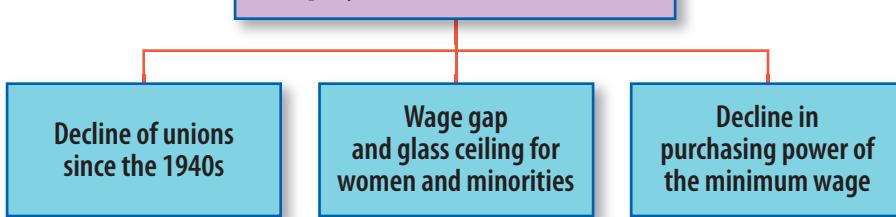


- **Labor Dispute Resolution** Union and management representatives can use several strategies to resolve deadlocks when collective bargaining fails.



- **Employment Issues** Current labor issues include the loss of influence and power since the 1940s, the wage gap between women and men, and the minimum wage and its purchasing power.

### Employment Trends and Issues



# Assessment & Activities

## Review Content Vocabulary

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

1. boycott
2. closed shop
3. company union
4. seniority
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
19. theory of negotiated wages
20. signaling theory

## Review Academic Vocabulary

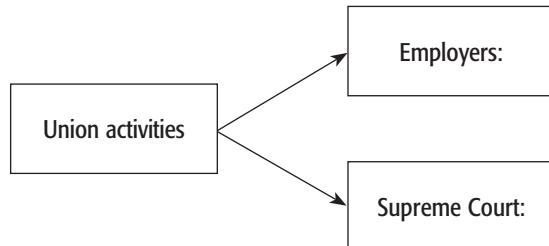
Use each of these words in a sentence that reflects the word's meaning in the chapter. Then create a word search puzzle using the sentences—without the word as clues.

- |                 |                |
|-----------------|----------------|
| 21. legislation | 24. distort    |
| 22. prohibit    | 25. trend      |
| 23. anticipate  | 26. equivalent |

## Review the Main Ideas

### Section 1 (pages 197–205)

27. **Describe** several reasons for the rise of unions prior to 1930.
28. **Identify** the effects of union activities during the post-Civil War period by using a graphic organizer similar to the one below.



29. **Describe** current union influence in terms of membership and workers represented by unions.

### Section 2 (pages 207–213)

30. **Explain** why a college degree can lead to higher wages.
31. **Identify** the purpose of collective bargaining.
32. **List** the approaches to resolving a deadlock between a union and a company's management.

### Section 3 (pages 215–221)

33. **Explain** why men and women are said to have "human capital" differences.
34. **Describe** two corrective measures being taken to close the income gap between men and women workers.
35. **Identify** the original intent of the minimum wage.

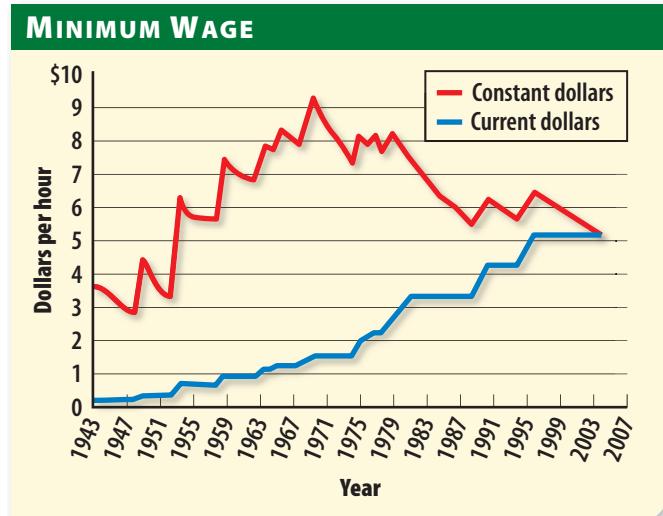
## Critical Thinking

36. **The BIG Idea** 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.

- 37. Contrasting** Identify the differences between mediation and arbitration. Which method do you think is more effective? Write a paragraph explaining your answer.
- 38. Analyzing Information** Some people believe that in today's economy, the market theory of wage determination is more useful than the theory of negotiated wages. Explain why you agree or disagree.
- 39. Analyzing Visuals** Look at Figure 8.2 on page 202. How does your state's position on this issue affect you? Why do you think your state supports or opposes right-to-work laws?
- 40. Inferring** Why are workers in the food service industry least likely to be unionized?

## Analyzing Visuals

- 41. Critical Thinking** Explain how a supporter of raising the minimum wage would use the information from the graph below.



## Writing About Economics

- 42. Persuasive Writing** Based on what you have learned about wage determination, write a short essay persuading a friend to continue his or her education after graduating from high school.

## Applying Economic Concepts

- 43. Civilian Labor Force** As you go to and from school, take note of the various occupations around you. List at least 10 occupations, and then classify them according to the four major categories of labor. Which category is represented most? Is a category not represented at all? Why do you think that might be?
- 44. 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.

## Interpreting Cartoons

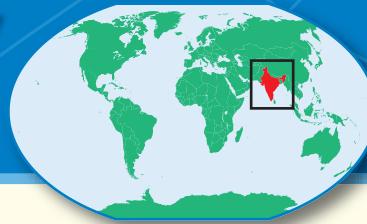
- 45. Critical Thinking** Look at the cartoon below. What goal of the labor union movement does the cartoonist illustrate? What labor action are the beanie babies utilizing to achieve their goal?



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# The Global Economy & YOU



## “Offshoring” American Jobs to India

Have you called a customer service center recently? If so, you may have talked to a person with an American name and an unfamiliar accent. Many U.S. companies have decided to outsource a portion of their business, such as customer support, to companies located in the United States. Others send these jobs abroad, a practice called “offshoring.” India is a favorite location.

### Job Exodus

Customer service positions are not the only jobs headed for India. Work moving offshore also includes processing mortgages, overseeing payrolls, balancing business accounts, and handling insurance claims. When you surf the Internet, you’re using search terms and archives keyed in or scanned mostly by Indian technicians.

India is attractive for several reasons. The country provides a large pool of educated people who speak English. In addition, India’s day begins when ours ends, which means that U.S. companies can work all day and increase productivity by offshoring overnight work to India. With fiber-optic cables wrapped around the world, it is cheap to transmit data from North America to South Asia. Perhaps the most important reason for looking overseas is cheap labor. A software programmer in India earns about \$10,000 compared to an American programmer’s salary of roughly \$60,000.

Projected Number of U.S. Jobs to Move Overseas by 2015

Job	Projected Number of U.S. Jobs to Move Overseas by 2015
Art, design	29,654
Life sciences	36,770
Legal	76,642
Architecture	184,347
Sales	226,564
Management	288,281
Business	348,028
Computer	472,632
Office	1,659,310

Source: Forrester Research, Inc.

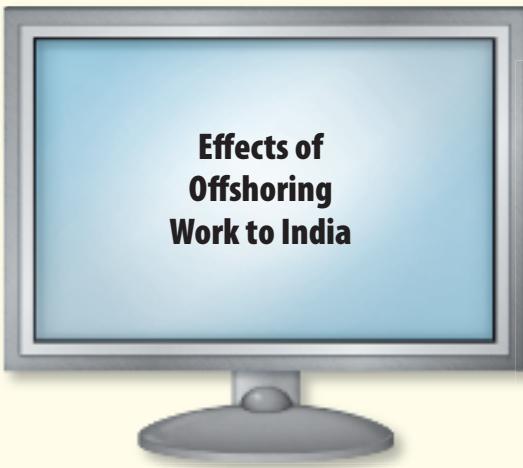
### White-Collar Workers Feel the Pinch

Previously reserved for low-wage jobs such as those in textile manufacturing, offshoring today impacts white-collar workers. Some studies estimate that offshoring cost U.S. workers 400,000 jobs in 2004 and predict that it will cost more than 3 million jobs by 2015. Others foresee as many as 4 million jobs lost in the services sector alone.

The ranks of high-profile American companies moving parts of their operations to India include Charles Schwab, AOL, American Express, GE, and Microsoft. And the list continues to grow. More than half of Fortune 500 companies have shipped jobs overseas, including Oracle, Dell, Delta Air Lines, J.P. Morgan Chase, British Airways, and Hewlett-Packard.

Salary Comparisons		
Job	United States	India
Software programmer	\$66,100	\$10,000
Mechanical engineer	\$55,600	\$5,900
IT manager	\$55,000	\$8,500
Accountant	\$41,000	\$5,000
Financial operations	\$37,625	\$5,500

Sources: Paàras Group; International Labour Organization



- Lower prices for goods and services purchased in the United States
- Around the clock and around the world productivity for U.S. companies, resulting in more profits
- Loss of jobs for U.S. workers

## What Does It Mean For You?

The good news is that cheaper labor for goods and services means lower prices for you and other consumers. You also benefit from services that are available to you any time of day. For example, if you have a medical emergency that requires x-rays, the digital images can be interpreted by an Indian radiologist overnight, with results reported back to your doctor by the next morning.

The bad news is that many Americans may lose their jobs. Offshoring can even change your likelihood of future success. A college degree—even an M.D. or Ph.D.—may not be enough to compete with India's growing employment pool of cheap, educated labor.

*Bengaluru (Bangalore), India, with a highly educated workforce and a total population of more than 6 million, is a magnet for U.S. companies looking to offshore jobs.*



## Analyzing the Issue

- 1. Identifying** How can using workers in India increase an American company's productivity?
- 2. Determining Cause and Effect** What are the main reasons why American jobs are sent overseas?
- 3. Applying** Check your local newspaper or Internet news sources for recent reports about companies in your community or state that have sent jobs overseas. On a separate piece of paper, summarize the issues discussed in these articles and describe how they affect you and your community.