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THE MINIMUM-WAGE DEBATE AND ITS IMPLICATIONS FOR UNIONS

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ABSTRACT

This article summarizes the current Congressional debate about whether or not to raise the minimum wage and the implication of raising that wage for unions. Since the minimum wage has not been increased in a decade, its real value is at its lowest point since 1960, and conservatives in Congress are concerned that raising it would have severe negative consequences on business, particularly small business. As discussed below, however, this argument is not empirically supported. Therefore, an investigation into the role unions play in the debate and how more union-friendly states regard the lowest paid workers are presented. Two multiple regression equations are provided to show the correlation between the minimum wage and how unions figure into the debate.

Congress is currently debating whether or not to increase the federally mandated minimum wage, which has not been increased since 1997. Ten years later in 2007, the minimum wage of $5.15 per hour had the buying power of $4.06 in 1997; in other words, the buying power of minimum wage decreased by over 25 percent. Moreover, as seen in Figure 1, the real minimum wage is at its lowest point since 1960.

It is generally assumed that the legislation will pass, but not without government "handouts" typically in the form of tax breaks given to its most vocal opponents (i.e., small business owners). Although the House passed a bill with no codicils, a "clean" bill, small business owners exerted their influence in the Senate, which passed a bill that included tax incentives for small business owners.

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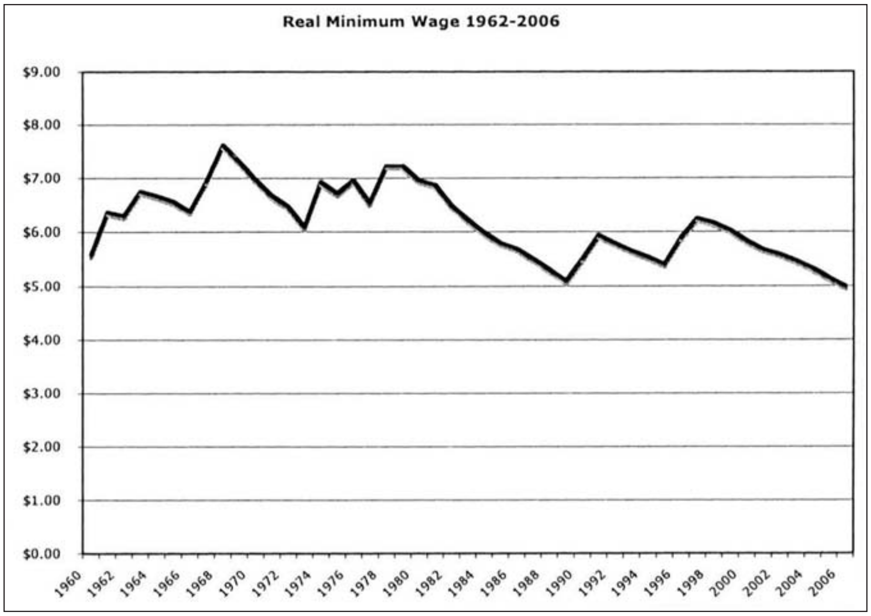

Figure 1. Real minimum wage 1962-2006.
Source: http://www.epi.org/content.cfm/datazone_dznational and http://data.bls.gov/cgi-bin/cpicalc.pl

Politicians, economists, and business people, particularly small business owners, regularly debate how an increase in the minimum wage would directly and indirectly affect the U.S. economy. Their arguments are not new—indeed they are all as old and hackneyed as the notion of wages itself. Conservatives argue that any government interference with business practices disrupts the smooth running of the economy. Meanwhile, liberals argue that, left unchecked, private businesses will *not* do the right thing and pay their employees a livable wage—which, quite frankly, is a viable assumption, given that almost 95 percent[1] of minimum wage workers are employed in the private sector [1]. Moreover, paying a minimum wage (or one close to it) keeps a worker below the poverty level. This could imply that national, state, and local governments are more likely responsive to the needs of their workers than private employers.

Of course, not all governmental agencies are worker-friendly; take for example, the state of Indiana where Governor Daniels refused to honor the state workers'

[1] All of the statistics presented in this article are \softlinebased on the current federal minimum wage of $5.15 per hour. That is, all of the statistics are \softlineunderstated because 29 states have minimum wages that are higher than the federal limit.

collective bargaining agreements or the 22 right-to-work states, where workers enjoy union representation without the requirement of paying dues. Conversely, however, even though unionization attempts by government workers are thwarted, public sector workers enjoy a union density rate of 36.2 percent, while union density in the private sector was only 7.4 percent in 2006 [1]. This is relevant because union workers typically earn a wage greater than the minimum. Therefore, the private sector might need to be motivated by enforceable legislation so that it pays its workers better than it presently does.

This article analyzes issues presented in the current debate over the minimum wage, focusing particularly on the relevance of the minimum wage to unions and small businesses. Unions have typically been stalwart supporters of minimum wage increases for a variety of reasons that may or may not be altruistic; however, in the model presented in this article, unions should have an even stronger incentive to maintain their support. As discussed below, union density (unionization rates) and whether or not a state has implemented a Right to Work (RTW) law are correlated with the minimum wage of the 50 states and Washington D.C. Furthermore, a brief discussion of the drive by the Senate (and now the House) to include tax cuts for small businesses is included because it provides a subterfuge for the real issue at hand, that is, an increase in the federal minimum wage.

THE CURRENT LEGISLATION

The minimum wage legislation Congress now proposes would raise that wage from $5.15 to $7.25 per hour over a two-year period. At first, the minimum wage would only increase to $5.85 60 days after the bill is enacted. One year later, the next incremental raise would be to $6.55; the following year, the wage would increase to $7.25. Currently 30 states (including the District of Columbia) have minimum wage laws that exceed the federal level. Indeed, all 30 would not be affected in the first round of increases because they all have a minimum wage of $5.85 or higher [2]. Table 1 displays the Minimum Wages for all 50 states plus the District of Columbia.

The Senate and the House passed two separate bills. While they do not differ in the issue at hand (i.e., the minimum wage), the bills differ in the tax provisions they contain. The Senate bill includes “relief” in the form of tax cuts to small business because of the doomsday predictions of some regarding the fate of small businesses if they were forced to pay higher wages. Conversely, the House originally passed a “clean” bill, one that simply called for an increase in the minimum wage; however, that bill has now been muddied. It now includes tax cuts for small businesses that amount to $1.8 billion over ten years. The Senate bill, which has never been “clean,” includes provisions of tax cuts that total $8.3 billion [3]. Of course, these issues need to be reconciled so that only one bill is sent to the President for his signature; Max Baucus, the Senate Finance Committee Chairman, believes that this will happen in the near term [3].

Table 1. Minimum Wage by State

States with minimum wage over federal	Minimum wage (in dollars)	States with federal minimum
Washington	7.93	Alabama
Oregon	7.80	Georgia
Connecticut	7.65	Idaho
Vermont	7.53	Indiana
California	7.50	Iowa
Massachusetts	7.50	Kansas
Rhode Island	7.40	Kentucky
Hawaii	7.25	Louisiana
Alaska	7.15	Mississippi
New Jersey	7.15	Nebraska
New York	7.15	New Hampshire
District of Columbia	7.00	New Mexico
Michigan	6.95	North Dakota
Colorado	6.85	Oklahoma
Ohio	6.85	South Carolina
Arizona	6.75	South Dakota
Maine	6.75	Tennessee
Florida	6.67	Texas
Delaware	6.65	Utah
Illinois	6.50	Virginia
Missouri	6.50	Wyoming
Wisconsin	6.50	
Arkansas	6.28	
Pennsylvania	6.25	
Maryland	6.15	
Minnesota	6.15	
Montana	6.15	
Nevada	6.15	
North Carolina	6.15	
West Virginia	5.85	

Source: U.S. Department of Labor "Minimum Wage Laws in the States," January 1, 2007.

THE DEBATE

The argument that conservative economists (and indeed one that is included in most economics textbooks) have been making for decades, even centuries, is that if the minimum wage is "artificially" increased by external (government) forces, then the demand for minimum wage workers decreases [4]. This conservative argument employs the basic assumption that there is a "perfectly competitive" labor market. Such a market assumes that buyers and sellers have perfect information and that wages would be automatically adjusted either up or down in response to market pressures. Additionally, it also assumes that any federally mandated minimum wage is above an "equilibrium" wage set by market forces of supply and demand. If the minimum wage is lower than equilibrium, then there is no direct effect in the labor market, either on wages or on employment [4]. For example, if there were a shortage of nurses, the price (wage) of hiring a nurse would increase. Conversely, according to this approach, when the unemployment rate increases, a corresponding decrease in wages would occur because it is assumed that unemployed workers would take jobs at lower rates of pay. It is not, however, simply an increase in the unemployment rate that makes workers take a lower wage; rather, it is the usually credible threat of the business closing and/or moving (i.e., outsourcing to Mexico, China, or other countries where workers earn lower wages). This phenomenon, however, tends to primarily affect high-wage unionized workers in the manufacturing sector. Thus, the argument does not hold true in the low-wage service sector in which most minimum wage workers toil.

Moreover, empirical evidence provided by a variety of researchers refutes the notion that raising the minimum wage would result in an increase in unemployment, particularly for those whom the raise is trying to help [5]. Even conservative economists David Card and Alan Krueger in the seminal work *Myth and Measurement* reported, "recent minimum wage increases have not had the negative employment effects predicted by the textbook model" [6, p. 1]. Card and Krueger go even further and espouse that increasing the minimum wage can actually have a positive effect on employment roles [6, p. 1]. Some researchers such as David Neumark and William Washer [7] try to contest Card and Krueger's results, yet others have dispelled their criticisms, particularly the work of Jared Bernstein and John Schmitt of the Economic Policy Institute [8].

Bernstein and Schmitt analyzed the effects of the latest (1996 and 1997) minimum-wage increase on employment and who benefited from the increase. They "fail[ed] to find any systematic, significant job loss" [8, p. l]. Moreover, they also found that, contrary to the conservative assertions as those provided by James Sherk [9], the 1996 and 1997 increase in the minimum wage "raised the wages of almost 10 million workers" [8, p. 1]. Even more illuminating is the fact that most "71 percent of the affected were adults, and 58 percent were women" [8, p. 1]. One of the dominant false impressions conservatives convey regarding the minimum wage is that most minimum-wage earners are young people. Even the Bureau of Labor Statistics posts such a statement on its Web site's minimum-wage homepage [2], thereby providing fodder to conservative political pundits (such as Rush Limbaugh and others) who often incorrectly assert that most minimum-wage earners are suburban teenagers who only work to get a new computer game or a special pair of blue jeans. Under further inspection, however, although only 46.71 percent of the minimum-wage earners are over 25 years old, if all teen-aged earners were removed, the majority—74 percent—of the workers earning minimum wage would be adults 20 years of age or older, not suburban teenagers.

Another conservative assumption is that if the minimum wage is increased for the supposedly unskilled workers who earn such a wage, then the demand for those workers decreases because they are now more expensive; this, in turn, causes a reallocation in the organization of the work process, the result being that employers will now choose to hire more skilled workers [9]. Proponents of such arguments use them to demonstrate that greedy union members, not minimum or low-wage workers, will benefit from any wage increases. The new reality of work in the United States, however, is that high-wage manufacturing jobs just do not exist anymore—that is, they are hemorrhaging to other countries. Moreover, most of the job creation in the past 50 years has been in the low-wage service sector [10]. For example, Wal-Mart, with an employee base that consists primarily of minimum and low-wage workers and that manufactures nothing in the United States, is now this country's largest employer. Indeed, almost 75 percent of the workers earning minimum wage are employed in the service industries [2].

Furthermore, many conservatives make the argument that raising the minimum wage will not decrease poverty [5, 11, 12]. They espouse statistically significant econometric results that purport to prove that raising the minimum wage will actually harm the very people such wage increases are supposed to help the most (i.e., the poor and working poor). Indeed, they correctly state that many of the poor do not work at all, but they fall short of explaining why. What is the motivation for a single mother to work if it is more economical for her to stay home and care for her children rather than to take a position for $5.15 per hour? Any parent knows how expensive child care is, even substandard care, and the poor simply cannot afford to go to work because, all too often, it actually costs more to work than to stay home. Although this might not be the case with an increase in the minimum wage, which might also have the residual affect of raising the wages of other working poor individuals and families, according to testimony given to Congress on April 27, 1999 by Economic Policy Institute researcher Jared Bernstein, there is "solid evidence that the last minimum-wage increase lifted the earnings of low-wage workers without diminishing their employment prospects" [13, p. 1].

Probably the most influential argument against raising the minimum wage comes from small business owners and their advocates. For example, Thomas

MaCurdy and Frank McIntyre argue that businesses would reduce the number of hours of minimum-wage workers or reduce the number of these workers [12]. Furthermore, they contend that small businesses' profits might be negatively affected or that prices will need to be increased. This argument, however, is unconvincing given that "a whopping 91 percent of small business owners said they are not affected by minimum-wage laws because they pay all of their employees more than the minimum wage, according to a survey by SurePayroll, an online payroll service provider for small businesses" [14, p. 1]. Moreover, 30 states (including Washington D.C.) already require minimum wages greater than the one that is federally mandated. Given this, it is inexplicable why Congress is tenacious about including expensive tax cuts in any minimum-wage legislation.

THE MINIMUM WAGE AND UNIONS

Unions have typically steadfastly supported minimum-wage increases because they have vested interests in such raises for an array of reasons—some altruistic, some not—given its relationship to other variables of profound importance to unions and the workers they represent. Unions know that with higher wages, low-wage workers can more likely afford the products union members produce; also, unions believe that workers who earn higher wages may not rely so heavily upon the welfare system, which will allow tax revenues to be allocated in other ways. As mentioned above, a primary conservative argument regarding unions' support for minimum-wage increases is that unions are simply greedy and, therefore, are attempting to shift work away from unskilled low or minimum-wage workers to skilled union workers [9]. But such a reason for union support is uninspiring given that employers cannot readily shift their production method instantaneously.

Moreover, most workers who earn minimum wage do not work in industries such as manufacturing, construction, transportation, or telecommunication in which unionization rates are above the average at 13.6 percent, 12.5 percent, 24.3 percent, and 22.1 percent respectively. Indeed, 63.8 percent of the workers earning minimum wage are in the Leisure and Hospitality sector, a portion of the economy in which the unionization rate is a mere 3.5 percent. Furthermore, the division with the lowest unionization rate—1.4 percent—is the Food Services and Drinking Places segment of the Leisure and Hospitality sector of the economy [15]. With fast food establishments paying only minimum wages, it is not surprising that McDonald's profits rose 15 percent to "$843.3 million for the third quarter [2006] compared with the same period in 2005" [16, p. 1]. Also not surprising is the opposition to the current legislation by the International Franchise Association, that argues that its members "operate on thin profit margins," therefore increasing the minimum wage would force some members to go out of business permanently [14]. Notwithstanding how insignificant an increase in the minimum wage would directly affect union workers, unions continue to be advocates of the legislation.

UNION FRIENDLY STATES AND THE MINIMUM WAGE

Although union workers tend not to be minimum-wage workers, whether altruistic or not, they typically support minimum-wage increases. Self-justification is one possible motivating factor, indeed in more “union-friendly” states, i.e., where union density rates are high and where “Right to Work” (RTW) legislation is resisted, the minimum wage level is positively influenced. For example, minimum wages tend to be higher in the states where unionization rates are greater. Of the 25 states (including the District of Columbia) with above average unionization rates, only two states, Indiana and Iowa, use the federally-mandated minimum wage of $5.15 per hour (and there is currently legislation to raise the minimum wage in both of these two states [17]); the other 23 states require a minimum that is higher, indeed on average $1.77 per hour or 35 percent higher than the federal standard. Conversely, of the remaining 26 states with lower than average unionization rates, 73 percent of them require only the federally mandated minimum wage. Moreover, of the 22 RTW states, only 5 require a minimum wage higher than the federal level. That is, 77 percent of RTW states only require a minimum wage of $5.15 per hour.

Given the interesting observations on unionization rates and RTW laws and their strong relationship to the minimum wage provided above, it becomes evident that further analysis is necessary. Moreover, because of the controversy surrounding minimum-wage increases, its positive affect on the unemployment rate, and its lack of affect on poverty levels, investigating those claims seems imperative. Therefore, two multiple regression equations are provided to further analyze the various claims.

The first model is an investigation of the correlation between the minimum wage, unionization rates, and a state’s RTW status. That is:

$$\text{Minimum Wage} = f\,[\text{Unionization Rates, RTW}\}$$

Since most minimum wage workers are not union members, one would expect that the level of unionization would have little or any influence on the minimum wage. Conversely, however, in the conventional literature, if there were any “spillover” effect at all on wages, it would be negative [4, p. 337]. That is, because of high wages in the union sector, some union workers are displaced and therefore look for employment in the non-union sector, thereby increasing the number of workers in that sector and subsequently depressing non-union wages.

Furthermore, RTW laws are particularly detrimental to unions because such legislation legally requires unions to provide costly representation even to those workers who opt out of membership and, therefore, paying dues. That is, RTW laws are incentives to “free-riders.” In an ostensibly “free-market” environment, RTW laws are intended to level the playing field between union and non-union workers, thus negating the “spillover” effects previously mentioned. Therefore, it might be expected that if there was any relationship at all between minimum-wage legislation and a state's RTW status, that would be positive. That is, because more workers are not displaced into the non-union sector, wages would remain at their "natural" equilibrium level, not depressed by spillovers.

Using a cross-section data set of 51 observations, a multiple regression equation was estimated with the Ordinary Least Squares technique, the results of which are provided in Table 2. The unionization rates are the percentages posted by the Bureau of Labor Statistics. A dummy variable is used for whether or not a state has a RTW law—1 if so, 0 if not. Both variables are statistically significant with at least 90 percent confidence given to the calculated *t*-Statistics. Furthermore, the equation is significant given the *P*-Values and *F*-Statistic. Moreover, 50 percent of the variation in the minimum wage can be explained by just the two simple variables of unionization rates and RTW laws.

Table 2. Multiple Regression Analysis: First Equation

Independent variable	Coefficient	*t*-Statistic	*P*-Value
Intercept	5.6	13.5	5.2E-18
Unionization rate	.07	2.8	.0075
RTW	–.7	–2.6	.0316
R^2	.52		
Adjusted R^2	.50		
F-Statistic	25.5		

Interpretation of the coefficients yields noteworthy information. That is, for every 1 percent increase in unionization rates, the minimum wage is predicted to increase by 7 cents. However, if a state has RTW legislation, the minimum wage is expected to decrease by 70 cents on average. The conclusions yielded from this analysis indicate that states which inhibit the right of workers to join unions are the same states that do not support a proposition of paying a living wage to their citizens. This might provide evidence that some states think of workers and workers' rights differently. That is it seems that "union-friendly" states tend to be more universally "worker-friendly" places.

Because of the focus of much research on the effects on unemployment rates and poverty level, the second regression equation estimated includes both the independent variables of unionization rate and RTW status, but it also factors in unemployment and poverty rates. The second regression equation estimated is:

$$\text{Minimum Wage} = f\,[\text{Unionization Rates, RTW, Unemployment Rate, Poverty Rate}\}$$

Table 3. Multiple Regression Analysis: Second Equation

Variable	Coefficient	*t*-Statistic	*P*-Value
Intercept	5.37	8.24	1.34E-10
Unionization rate	.066	2.62	.0112
RTW	–.61	–2.18	.0316
Unemployment rate	.13	1.39	.1698
Poverty rate	.04	–.83	.4122
R^2	.55		
Adjusted R^2	.49		
F-Statistic	13.2		

The speculative basis of the second equation is the conservative argument mentioned previously that asserts unemployment will increase with higher minimum wages and that poverty levels will not be affected. Table 3 provides the results of the second regression analysis. As can be seen in Table 3, the inclusion of the unemployment and the poverty rates does not yield statistically significant results given the *t*-statistics and the *P*-Values. Therefore, this model shows that neither added variable is affected by changes in the minimum wage. Moreover, only 49 percent of the variation in the minimum wage can be explained by the four independent variables, which clearly is not as remarkable as the first model.

The results of the second model are consistent with research provided by various scholars, such Card and Krueger [6] and Bernstein and Schmitt [8]. As in this model, these researchers also found that, contrary to the theory espoused in most (if not all) introductory economics textbooks, increases in the minimum wage had no impact on employment or unemployment rates [6, 8]. Textbook explanations are therefore erroneous or at least misleading when they propagate that raising the minimum wage causes unemployment. Furthermore, this assertion is based on the conservative assumptions discussed above which assume the labor market is perfectly competitive and that the minimum wage is above equilibrium. Nevertheless, the results presented in the Tables above clearly show that neither assumption holds true.

CONCLUSION

The data presented here reveals that, if a person worked full time (40 hours per week) at the minimum wage for an entire year (earning only $10,712 per year before taxes), his or her family could not survive on that $5.15 hourly wage rate.

Even for a single person, this income is just above the $10,160 per year poverty threshold for one person under 65 years old and is definitely below the poverty threshold for two-or-more-person households. The implication is that many minimum-wage earners qualify for government assistance and, therefore, that taxpayers ultimately are supplementing employers who only pay minimum wages.

The Economic Policy Institute estimates that almost 15 million workers or 11 percent of the workforce “would receive an increase in their hourly wage rate if the minimum wage were raised from $5.15 to $7.25 by 2008” [18]. This includes almost 1.4 million single parents, most of whom are women. Clearly, $7.25 will not be utopia for these workers; however, the increase should provide some relief to the working poor.

Additionally, raising the minimum wage to $7.25 should have a positive effect on the economy. If 11 percent of the workforce is going to benefit and these workers are in low-income households, a positive multiplier effect should be present—that is, the consumption of goods and/or services used by the working poor would increase in terms of the amount sold. Therefore, businesses should see an increase in their profits without an ostensibly necessary increase in prices, which, according to Federal Reserve Chairman Ben Bernanke, would be minimal [19].

The current legislation being debated now includes tax cuts or relief for small businesses, without consideration that 29 states currently set minimum wages above the federal level. This indicates that the across-the-board tax cuts might not be necessary. The proposed legislation, the “Small Business and Work Opportunity Act of 2007” (SBWOA), has no controls for retaining or adding minimum wage workers [19]. Moreover, and possibly even more egregious, the SBWOA may give employers the incentive to substitute capital for labor because the legislation includes greater depreciation allowances for new capital expenditures [20]. This could result in increased unemployment and possibly fuel the next debate on minimum-wage increases.

Viable minimum-wage legislation would require systematic annual increases in the wage rate. Such a law would simply include cost of living increases so that the minimum-wage increases with the inflation level. Most, if not all, of the cliched doomsday predictions have all but been debunked. There is no reason, except to placate business interests, to include tax incentives in any minimum-wage bill. That is, it is not time to implement legislation that includes codicils that might hamper a simple solution to the problem that the working poor need a raise.

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