

## How to Study for Chapter 24 Labor Market Issues

Chapter 24 continues the analysis of labor markets. It uses the tools developed earlier to analyze discrimination, immigration issues, and labor unions. Only one of these issues will be covered in the class.

1. Begin by looking over the Objectives listed below. This will tell you the main points you should be looking for as you read the chapter.
2. New words or definitions and certain key points are highlighted in italics and in red color. Other key points are highlighted in bold type and in blue color.
3. You will be given an In Class Assignment and a Homework assignment to illustrate the main concepts of this chapter.
4. There are a several new words in this chapter. Be sure to spend time on the various definitions. There are no new graphs.
5. The teacher will focus on the main technical parts of this chapter. You are also responsible for the cases and the ways by which each case illustrates a main principle.
6. When you have finished the text, the Test Your Understanding questions, and the assignments, go back to the Objectives. See if you can answer the questions without looking back at the text. When you are ready, take the Practice Quiz for Chapter 24.

## Objectives for Chapter 24 Labor Market Issues

At the end of Chapter 24, you will be able to answer the following questions:

1. What is “**wage discrimination**”? What is “**occupational discrimination**”?
2. Explain the “**overcrowding model**”? Explain Becker’s “**tastes for discrimination**” model.
3. Explain the provisions of the most important anti-discrimination laws of the United States.
4. What is **affirmative action**? What arguments can be made in favor of it and against it? What does the evidence show?
5. Describe the trends in the amount and the composition of immigration to the United States and to California.
6. Briefly describe American immigration policies.
7. How well have immigrants fared in the United States? What effects have they had on American natives?
8. Who are the Mexican migrants to California (describe their characteristics)? Why do they migrate? What effects have they had on the California economy? How well have they done?
9. Name the three levels of labor union organization and explain what each level does.
10. Explain the difference between a “**craft union**” and an “**industrial union**”.
11. What is meant by a “**closed shop**”, an “**open shop**”, a “**union shop**”, an “**agency shop**”
12. Name the arguments for and against the passage of **right-to-work laws**.
13. Name the various goals that a labor union might pursue and explain how it would go about trying to achieve its goals. Explain the forces that are likely to determine whether a labor union will be successful in achieving its goals.
14. Explain the effects of unions on wages/benefits, equality, stability, productivity, and profits.
15. Explain why the proportion of workers belonging to a labor union has been declining.

## Chapter 24 Labor Market Issues (latest revision July 2004)

This is an optional chapter. Part or all of this chapter may not be assigned by the instructor.

There are many issues involving labor markets that we could analyze. Some, such as the minimum wage and the earnings gap between men and women, have already been considered. Others, such as poverty, will be considered later. In this chapter, let us consider three significant labor market issues. The first will be discrimination in labor markets and the role of affirmative action. The second will be immigration. And the third will be labor unions.

### Case 1: Discrimination in Labor Markets

Because different people paid different wages does not mean that there is discrimination. *To have what we will call “wage discrimination”, different people must be paid different wages despite having the same productivity.* The problem is that individual productivity is very hard to measure. *Therefore, we say that “wage discrimination” exists if different people receive different wages despite having the same productive characteristics.* The productive characteristics usually considered include **age (as a measure of overall work experience), experience with the current employer (as a measure of specific skills), education, and occupation.** In other words, we try to find people in the same occupation whose age, experience, and education are similar. **When we do this, we do find that there are pay differences between men and women and also between whites and minorities.** For example, studies have found that gender differences in formal education, experience, and occupation tend to explain about 2/3 of the earnings difference between men and women. So if women, on average, earned 30% less than men, approximately 2/3 of this (20%) would be due to differences in education, experience, and occupation. The other 1/3 (10%) cannot be explained. While this 10% may be due to aspects that are difficult to measure, such as motivation, it is often considered to be the result of wage discrimination against women. The same analysis can be used to explain the 45% family income gap between blacks and whites.

Interpreting these numbers is very difficult for several reasons. First, the numbers suggest that women are paid less than men in part because of differences in formal education and in part because of discrimination. However, if women believe that there will be discrimination against them (and, according to surveys, over half of women do believe this), they may be less likely to obtain the amount and type of formal education that men obtain. Thus, there is *a feedback effect* at work. If wage discrimination against women were eliminated, women’s earnings would rise in part because of the elimination of the discrimination and in part because of the incentive to obtain more formal education. Second, interpreting these numbers is very difficult because the numbers suggest that women are paid less than men in part because of discrimination and in part because they are in different occupations. Yet, the discrimination against women may come specifically in preventing them from being in certain occupations. *This is called “occupational discrimination”.* *In fact, a large portion of the differences in pay between men and women occur specifically because of differences in occupation, rather than differences in personal characteristics.*

Consider some occupations as “men’s occupations” and others as “women’s occupations”. (Commonly, a “women’s occupation” refers to an occupation in which at least 70% of the people in that occupation are women. These include such occupations as nurse and secretary.) Assume

that wages originally are higher in men's occupations, even among equally productive people. In the absence of discrimination, we would expect women to leave the "women's occupations" and move to the "men's occupations". The greater supply in the "men's occupations" would lower wages there. The reduced supply in the "women's occupations" would raise wages there.

Ultimately the wages in both occupations would be equal. The fact that they do not do so implies some barrier preventing women from moving to the higher paying "men's occupations".

***Occupational discrimination is therefore a form of market failure.***

**This occupational discrimination becomes reinforcing.** Because the "men's occupations" have higher wages, employers have an incentive to substitute capital for the male workers. As we saw in Chapter 22, the greater amount of capital increases the wages in the "men's occupations" even more. However, the low wages in the women's occupations creates the incentive for employers to use labor-intensive methods of production. In addition, women may see the barriers facing them, decide that their future earnings potential is low, and therefore rationally decide not to "invest greatly in human capital". This means that it would not be rational for her to spend many years in college to train to be a high-ranking business executive if she believes that the opportunity is not available.

Economist Gary Becker first tried to explain the existence of discrimination by considering discrimination as a prejudice, which he called ***a "taste for discrimination"***. Employers may not wish to hire minorities or women and are willing to pay higher wages to avoid doing so. Or the employers may believe that their other employees may have "tastes for discrimination" and that morale and productivity of the workers would decline if minorities or women were hired. Employers would be especially reluctant to hire minorities or women if their other employees had considerable firm-specific training and were therefore hard to replace. Yet Becker thought that these kinds of discrimination would be hard to maintain if markets were competitive. If people with equal productivity were paid differently, there would be a good opportunity for some entrepreneur: hire the people who are paid less. This would allow that entrepreneur to produce at a lower cost and to gain at the expense of competitors. Surely there are people who love profits more than they dislike certain groups of people. All it would take is a few of these to take advantage of the opportunity and hire those who are paid less. Their demand would, of course, raise the wages for those who were discriminated against. **In his studies, Becker did find that discrimination was more severe in industries with considerable market power and less severe in competitive industries.** Although competition has become greater in recent years, the evidence suggests that it has not eliminated discrimination, as Becker had hoped.

In summary, we have considered several explanations for discrimination: **Becker's "tastes for discrimination" approach, the over-crowding approach, and statistical discrimination.** There are other explanations that we have not considered here. While we can learn from each of these explanations, we cannot say that we have a definitive understanding of discrimination in a market economy.

Let us now turn to the government policies that have been created to reduce or overcome discrimination. In 1963, the ***Equal Pay Act*** required that people who do substantially the same work receive the same pay from a given employer. Since men and women rarely do the same types of jobs, this law may have had little impact on gender discrimination. However, it is likely to have had more impact on reducing racial discrimination. In 1964, ***Title VII of the Civil***

**Rights Act** prohibited discrimination on the basis of race, religion, national origin, and gender in hiring, firing, training, wages, fringe benefits, and so forth, for businesses employing at least fifteen employees. (“sex”, not “gender” was the wording in the Act.) The **Equal Employment Opportunity Commission (EEOC)** was created to enforce these laws. In 1965, Executive Order 11246 barred discrimination by employers with federal contracts. It also required **affirmative action** for classes of workers disadvantaged as a result of past discrimination. Contractors and government agencies were required to examine their employment patterns to determine where women and minority groups were under-represented. When this was found, they were forced to set-up goals and timetables for the hiring of women and minority groups and to make good faith efforts to reach their goals within a specified time. Contractors who were violators faced the potential loss of their government contracts. The Supreme Court has ruled that employers can give employment preferences to women and minority groups as a way to reduce job segregation but cannot generally have strict numerical quotas. It has also ruled that, while women and minorities may have preferences in hiring and promotion under certain circumstances, they may not have preferences in protection against layoffs. Many states have mandated affirmative action programs. And many companies have voluntarily adopted such programs.

Affirmative action programs have generated considerable opposition. Some opponents argue that anti-discrimination laws are sufficient to resolve the problems of past discrimination and the affirmative actions programs are not necessary. Other opponents argue that the goals and timetable are too rigidly enforced and become de facto quotas. They see affirmative action as a form of “reverse discrimination”. And some have argued that affirmative action has benefited only educated, middle class members of minority groups while not helping those who were truly disadvantaged.

There have been many studies done relating to affirmative action. Studies done during the 1980s have shown that no lowering of standards was needed to achieve affirmative action goals, that companies implemented wider and more systematic search procedures and developed more objective hiring criteria as a result of affirmative action programs, and that most companies continued to use numerical objectives even when government pressures or regulations ended. However, the studies also found that the effect of affirmative action on employment was small. Finally, the studies failed to find any evidence of reverse discrimination, although they are certainly not conclusive at this point. The evidence showed that minorities and women gained most in companies that were growing. Companies made room for more minorities or women by increasing the number of employees, not by replacing people already employed.

It should not be surprising that, when the economy entered a recession in 1990 followed by a period in which economic growth was slow, opposition to affirmative action would grow. In 1996, California passed Proposition 209, eliminating affirmative action in state hiring, contracting, and admissions to universities. Two years later, the state of Washington did the same.

**\*Test Your Understanding\***

1. Explain to someone who does not know exactly what “**affirmative action**” is.
2. Many people are strongly against affirmative action and desire to make it illegal. What arguments can you make that affirmative action is bad and should be ended. Name as many as you can think of:
3. Other believe just as strongly that affirmative action is good and should be preserved (either as it is or with slight modifications). What arguments can you make that affirmative action should be retained? Name as many as you can think of:

## Case 2: Immigration

In recent years, immigration, both legal and illegal, has been an extremely controversial subject, especially in California. Policies have been implemented to stop illegal immigration at the border and to deny welfare benefits to legal immigrants. Policies have also been proposed to reduce the number of people who can legally migrate to the United States each year. In this section, let us examine what is known about the economics of immigration.

The first large-scale migration to the United States occurred in the period 1881 to 1924 when almost 26 million people entered the United States. Until 1924, there were no restrictions on immigration into the United States. After 1924, when restrictions were imposed, the number of immigrants dropped considerably. However, the number of immigrants rose again throughout the 1950s, the 1960s, and the 1970s.

**The number of immigrants has increased greatly.** As of 1995, there were about 24,500,000 immigrants in the United States, up from 9,620,000 in 1970. Almost 1/3 of these lived in California. Approximately 14% of these were estimated to be in the United States illegally (20% of all immigrants living in California). In the late 1990s, nearly 1,000,000 people were being admitted legally to the United States each year with another 300,000 entering illegally. By 1990, 22% of the population of San Diego (40% in Los Angeles) was foreign-born.

**The composition of immigrants has also changed dramatically.** In the 1990s, only 17% of immigrants originated in Europe or Canada, compared to over 2/3 of immigrants in the 1950s. In California, more than half of all immigrants in the 1990s originated in Mexico or Central America while almost 40% originated in Asia. Compared to immigrants that arrived in the 1950s, the immigrants who arrived in the 1980s and 1990s had fewer years of schooling, were less likely to have had experience in the labor market, were more likely to be unemployed, and earned lower wages. However, it is risky to generalize about immigrants as they differ from each other as much as they differ from natives.

Let us briefly examine **the history of American immigration policy**. As noted above, it was in 1924 that Congress passed restrictions on immigration for the first time. From then until 1965, visas were allocated to a country in proportion to the percent of the American population composed of migrants from that country. The desire was to preserve the ethnic makeup of the United States. This was changed in 1965. In that year, visas were provided for 270,000 people per year to enter the United States. No more than 20,000 could be from any one country. Of the 270,000 visas, 80% were to go to close relatives of American citizens or residents. The other 20% were to be allocated on the basis of skills. **By 1996, the percent allocated on the basis of skills had fallen to 7%.** In addition, more than 2 million people have entered the United States and become permanent residents as refugees (one quarter from Cuba and another one-quarter from Vietnam). **In 1986, Congress passed the Immigration Reform and Control Act (IRCA).** This law is discussed below. In 1990, the number of legal immigrants was increased.

**How have immigrants groups fared in the United States?** A study from the 1970s indicated that immigrant men earned 15% less than native men of the same education, age, and number of weeks worked soon after entry into the United States in the early 1960s. The earnings of the immigrant men grew faster than earnings of native men, however, and the immigrant men

reached parity with the native men fourteen years after arrival in the United States. However, **studies of those who entered the United States more recently indicate a different pattern.** Those who entered the United States in the late 1970s earned 21% less than similar natives. After twenty years, there was still a gap of 13% in their wages. In California, immigrant men earned 16% less than native born men in 1970, but 23% less by 1998. *In general, it appears that recent immigrants are not doing as well economically as those who arrived earlier. Particularly disadvantaged in this regard have been immigrants from Mexico and Central America (see below).* Language may be partly responsible for this. One recent study concluded that becoming proficient in English would add over \$100,000 (in 1995 prices) to lifetime income for a Hispanic immigrant. *Not only do they earn less, but recent immigrant groups also tend to experience greater unemployment than previous immigrant groups. They are also more likely than previous immigrant group to be in poverty and slightly more likely to use the welfare system.* (In 1998, almost 25% of immigrant households were receiving some type of public assistance, compared to 15% of native households.) Less education may be partly responsible for these results as *newer immigrants seem to have had fewer years of schooling in their countries of origin than earlier immigrants.* Also children of immigrant families are less likely to be in school at ages 15 to 17 than are children of native families.

**What effects have the immigrants had on the earnings and employment of native workers?** Studies indicate that the presence of large numbers of immigrants in urban areas has a small effect in reducing the wages for native workers. This occurs because, whenever the supply of workers rises, wages must fall. **This effect is large for less-educated, less skilled native workers.** One study indicated that immigration explains about one-third of the relative economic decline of high school dropouts during the 1980s. (This means that, if there had been no immigration at all, high school dropouts would have had a relative decline that is 1/3 less than the decline they actually experienced.) **But for most Americans, immigrants have a virtually negligible effect on their earnings. Studies also indicate that immigrants have little or no effect on the employment of natives.** Immigrants tend to be found in labor markets that are different from natives. **The lower wages, of course, benefit employers with lower costs.**

**In summary,** two major conclusions can be drawn from the research on immigration. *First, immigrants have little effect on the earnings and employment opportunities of most Americans (except for low-skilled native workers). And second, the new immigrants are not performing in the American labor market as well as natives or as well as previous immigrant groups did.*

### Case: Migration between Mexico and the United States

Over many years, there has been a connection between the Mexican and American labor markets (especially the labor market of California). As of 1990, almost 20% San Diego's population was "Spanish-origin"; this figure was even higher in Los Angeles County. Out of Mexico's labor force of 30 million workers, 10% to 20% rely on the United States labor market for most of their annual earnings.

There is a history to Mexican migration to the United States. There was a large migration from Mexico early in the twentieth century. It is estimated that **between 1910 and 1930, 1.5 million Mexicans immigrated into the United States,** at least temporarily. They were "pulled"

to the United States by the rising standard of living, especially in the agricultural sector. They were also "pushed" to the United States by the disruptions in Mexico caused by revolution and rebellion. **In these years, perhaps 10% of the entire Mexican population migrated to the United States.** In the 1930s, there was a Great Depression; especially in agricultural work, there was a substantial labor surplus. Mexican immigration slowed considerably while an estimated 400,000 Mexicans were deported. **In 1942, the American and Mexican governments agreed to the Bracero program, whereby Mexican nationals would be allowed to work in agriculture in the United States under contract.** ("Bracero" means "arms") This program was a response to the wartime shortage of labor in the United States. By the time the program was ended in 1964, **at least 1 million people had been Braceros.** And at least another 1 million people came to work in the United States illegally; they did so because it was expensive for them to get a permit (that is, it took considerable bribing). The employment conditions of the workers were specified in the 1942 agreement, and were to reflect American standards of decency. **However, housing, sanitation, food, and medical care were commonly substandard.** This, plus the fact that many of the jobs that had been done by the Braceros were eliminated by mechanization, eventually led to the political movement that ended the Bracero program in 1964. Yet, the demand for farm laborers did not diminish. And the Braceros had relatives in Mexico. Many Braceros settled in the United States and became a network for their younger relatives. After 1965, the only thing that changed was that the migration was no longer "legal". After 1970, the amount of migration accelerated. **The Bracero program had set in motion the socioeconomic forces that led to the illegal immigration of the last forty years.** In Mexico, it created the expectation that the best way to economic improvement was to migrate to the United States. In the United States, growers had made investments on the assumption that this type of cheap labor would always be available. Some have argued that, in the absence of this low-wage labor, family farmers might have been better able to compete in California with the large agri-businesses. California's agriculture might have looked more like that found in Iowa than it currently does.

### **How many Mexican migrants are there?**

*The best estimates are that about 150,000 to 200,000 Mexicans --- legal and illegal --- find jobs in the United States each year and settle. At least 20% of these will ultimately return to Mexico.* Between one and three million others work seasonally in the United States and then return to Mexico. One estimate was that 7 million Mexican-born people lived in the United States in 1997.

### **Who are the Mexican migrants to the United States?**

It is difficult to describe the characteristics of the "typical" migrant. But some characteristics can be noted. (1) Except for the permanent legal immigrants, **most used to be males in their 20s. However, women now constitute a majority of the settled immigrant population from Mexico,** a result of the Mexican economic crises of the 1980s and 1990s (which drove more women and children into the labor force). Women find employment in the United States in child care and cleaning as well as low level production jobs in garment firms, Silicon Valley semiconductor manufacturing firms, canneries, and packing houses. (2) **Most were of agricultural origin, although most of them had moved to cities and towns in Mexico before**

**coming to the United States.** Although they come from all over Mexico, as late as 1987, about 38% originated from just two Mexican states --- Jalisco and Michoacan. But in the 1990s, more migrants came from areas hit hard by the economic depression in Mexico. (3) **About three-fourths had less than eight years of education.** (4) **The majority had been employed in Mexico before emigrating; contrary to the popular impression, most had NOT been employed in farm occupations.** Also contrary to popular impression, (5) **they were not even close to the bottom of the income distribution of their home communities.** They would better be considered as underemployed family members in the Mexican middle classes.

### **Why do so many people migrate from Mexico to the United States?**

To explain this, one can examine both the "pull" factors and the "push" factors. *Among the "pull" factors, studies show that migration generally has NOT been closely related to American wage rates or unemployment rates. However, for specific products, there has been a pull factor.* As American incomes have risen, the demand for fruit, vegetables, and horticultural products has risen accordingly. These products have relied heavily on Mexican workers. But overall, these "pull factors", however, have not been very significant.

*It would seem that most of the explanation for the migration is to be found on the "push" side. These factors include the very high rates of Mexican population growth, especially in the rural areas, and the low rates of growth of agricultural productivity in the areas of Mexico that have provided most of the migrants.* Agricultural programs of the Mexican government did little for the peasants who produced maize and beans on small plots in the south and central parts of Mexico. These are the people who comprise most of the migrants.

### **What effects do these Mexican migrants have on the American economy?**

*Studies show that Mexican migrants generally work in unskilled and semi-skilled jobs for wages at or near the minimum wage.* While about one of six do work in agriculture, Mexican migrants are mostly found holding **semi-skilled and unskilled jobs in virtually every sector of the economy.** Commonly, Mexican migrants work as janitors, dishwashers, gardeners, hotel workers, car washers, house cleaners, and so forth. As noted above, *migrants do not generally compete with native workers for the same jobs. According to one study, only one or two out of every ten migrants takes a job that could be filled by an unemployed American citizen.* (This, of course, means "at the prevailing wage". If the migrants had not been available, employers would have to pay higher wages to attract American workers. At these higher wages, many of these jobs would indeed be filled by Americans.) The main effect of the migrants, also noted above, is on low-wage workers – those with little education. In a study of Los Angeles, it was shown that, in recent years, less educated African Americans seem to have been among the groups most adversely impacted by immigration.

If the migrants had not been available, the employers had another option to paying higher wages--- they could have substituted machinery for workers. *But because of the presence of large numbers of low-wage migrant workers, California employers have not substituted capital for labor.* Machines are currently available to harvest nearly every fruit and vegetable grown in the United States. However, farm wages have been falling relative to the prices of machinery since 1980, largely due to the presence of illegal immigration. When the Bracero program ended

in 1964, growers adopted the mechanical tomato harvester and introduced some new machinery into production of strawberries, lettuce, and some citrus. However, these growers simply lost interest in mechanization as the cheap labor became available. The same is true in manufacturing. The five industries in Southern California that hire most of the low-wage manufacturing workers, including illegal migrants, are apparel, furniture and fixtures, leather goods, lumber and wood products, and textile mill products. ***In these industries, companies substituted labor for capital due to the presence of large numbers of unskilled, inexpensive workers.***

Calculating the effects of Mexican migration on employment and wages of American citizens is complicated by several phenomena. ***First, by their very presence, low-wage Mexican workers may create a demand for their labor.*** An example here would be domestics. Were they not available and cheap, there might be no market for domestics. Also, as indicated above, the presence of low-wage labor encouraged employers to use more labor and less machinery than they otherwise would have. ***Second, in the absence of the low-wage Mexican immigrants, many companies would either go out of business or would move elsewhere.*** One researcher estimated for Los Angeles that, had there been no further immigration from Mexico after 1970, 53,000 manufacturing jobs would have been lost, 12,000 of which were high-paying, non-production jobs, because the businesses would have closed or left the area. Therefore, major beneficiaries of the existence of low-wage Mexican immigrants are company owners, white-collar workers, and suppliers of raw materials. ***Third, the migrants spend part of their incomes in the local area.*** One researcher found that the effect of removing "undocumented" workers from San Diego would be to raise unemployment 0.6% to 1.5% due to the reduction in their consumer expenditures.

### **What is the impact of migrants from Mexico on government spending and tax revenues?**

Besides the effects of Mexican migrants on wages and employment, some people have been concerned about the fiscal impact. ***Mexican migrants do take more money in government spending than they pay in taxes.*** Several studies, including one done for San Diego County, have shown that ***about 1/5 of migrants receive welfare and food stamps.*** Only legal immigrants have been eligible for these programs. Illegal immigrants can only gain access to welfare at all if they have fake documents. Although many migrants skimp on health treatments because of lack of ability to pay or because of fear of detection, they do make some use of county health facilities. An estimated 11% of children born in San Diego County are children of illegal immigrants. ***The largest government expenditure on Mexican migrants is for education; this results from the large family size and relative youth of the Mexican migrant population.*** Most of these children are in elementary school.

***Most migrants do have taxes deducted from their wages.*** Since they rarely file tax returns, they often lose refunds to which they are entitled. And, except for the long-term permanent migrants, they will not collect the social security benefits for which they have paid.

Putting the spending and the taxes paid together, there have been estimates of the fiscal deficit. They disagree greatly, except in finding that ***the fiscal deficit for immigrants (and especially illegal immigrants) is larger than for natives.*** (Another aspect of the problem is that a great part of the taxes are collected by the federal government while most of the services to immigrants are provided by the state and local governments, creating major

financial problems for state and local governments).

**In summary**, it appears that Mexican migrants do have effects on the labor market. They provide motivated and hard-working workers. They add to growth by their consumption of goods and services. And they raise wages and opportunities for some while lowering them for others. Because of their low wages, they may retard capital investments and other technological improvements. And their presence does generate a fiscal deficit.

### How do recent migrants from Mexico compare to earlier migrants?

Mexican immigrants who come to California on a long-term basis seem to be experiencing a pattern somewhat different from other immigrant groups who came to the United States in the past. *As with previous immigrant groups, the first generation improves its income level and occupational status somewhat over time.* For men, this means beginning in unskilled jobs and proceeding to semi-skilled factory employment. For women, it means starting as domestic service workers and proceeding to factory operative positions. **There is a clear ceiling on job status mobility within the first generation.** (Illegal immigrants experience no upward job mobility.) *As with previous immigrant groups, the second generation has experienced economic mobility in relation to their parents, with higher occupational status and wages.* While the first generation may have come to work in agriculture, the second generation rarely does this. However, **as noted earlier, Mexican immigrants, like other recent immigrant groups, are likely to do less well in the American labor market than did previous immigrant groups.** What is different about the experience of Mexican immigrants is the experience of the third generation. *Unlike the previous immigrant groups, the third generation has experienced virtually no occupational gain or income gain over the second generation.* This seems to have resulted because the third generation has experienced no gain in educational attainment over the second generation. Why it has not done so has not yet been well explained.

### What government policies are there related to migration from Mexico?

While many American businesses and growers support Mexican immigration, a large number of Americans desire to control it. These feelings have led to a number of policies to stop or control Mexican migration. The most significant reform came with the *Immigration Reform and Control Act of 1986*. In this act, sanctions are applied to employers who knowingly hire illegal migrants. Those who were long-term migrants and had been in the United States continuously since January 1, 1982 were allowed to apply for legal residence (amnesty). Approximately 1.2 million people applied for amnesty under this program. In addition, **the Special Agricultural Worker (SAW) program** allowed an illegal immigrant to apply for amnesty if he or she had worked in perishable crop agriculture in the United States for at least ninety days in the year ending May 1, 1986. An additional 1.1 million people applied for amnesty under this program, although less actually qualified. **This act spawned a new "growth industry" in the creation of forged documents.**

### Test Your Understanding

1. Choose one only of the following proposals for immigration reform:

A. Reduce the number of visas granted each year to about 500,000 (a reduction from the current level of 800,000.) Continue the current means of allocating them.

B. Adopt immigration laws such as those in Canada. Canada allocates a portion of its visas to close relatives of Canadian residents (as does the United States). But most of the visas are allocated on a point system. Applicants get one point per year of schooling (up to twenty), get up to ten points for being under age 35 (minus one point for each year older), get ten points if they already have a job offer from a Canadian employer, and get up to fifteen points for motivation and initiative, as assessed by an immigration officer. Typically, applicants had to have at least 50 points to be granted a visa.

C. Determine a certain number of visas to be awarded each year. Then, the government should sell each visa to the highest bidder.

Discuss the reform proposal that you chose. Then, list the **advantages and the disadvantages for the American economy and society** of this reform proposal.

2. The Wall Street Journal, a daily newspaper whose readers are primarily business leaders, has supported open borders, with no restrictions on immigration at all. Why would this position be consistent with the views of the constituents of this newspaper?

3. In 2003, President Bush proposed a new plan with regard to illegal migrants. Look up his plan at [www.whitehouse.gov](http://www.whitehouse.gov) or by doing a search on Google. Describe the basics of his plan. Then, find an article about someone who opposes the plan of President Bush. What are the arguments made against his plan?

### Case 3: Labor Unions

**Labor unions are groups of workers who come together for the purpose of bargaining collectively with their employer.** They typically bargain about wages. But they also bargain about job security, work rules, and other matters of importance. Workers, of course, are sellers of their labor. So, it becomes apparent that when workers (sellers) are “coming together”, there is something similar to a cartel. However, like agricultural cooperatives, labor unions are not cartels. And they are specifically excluded from the anti-trust laws that make cartels illegal.

Labor unions operate at three levels. At the lowest level, there is the **local union**. There is usually one local at each place of employment. The local union handles the administrative matters of the union. It assures that the labor contract that has been signed with the employer is adhered to. And very importantly, it handles **grievances** of the union members. The local unions are then affiliated into a **national union**, sometimes called an international union. So, for example, there is the United Auto Workers, with a local union in each automobile factor. Or the United Mine Workers, with a local union in each mine. Or the Major League Players Association, with a local on each baseball team. Or the California Federation of Teachers, with a local in each school. In most cases, it is the national union that does the collective bargaining with the employer. However, there are many cases in which the local union engages in the collective bargaining. Finally, the national unions are affiliated with **the American Federation of Labor – Congress of Industrial Organizations (AFL-CIO)**. This is largely a political organization representing the labor unions. It lobbies in Congress. It contributes money and campaign workers to help elect government officials favorable to its positions. But the AFL-CIO also helps organize new labor unions and raises money to help its workers in case of a strike. Under **the National Labor Relation Act**, if 10% of workers petition for a union election, an election must be held. A government agency, **the National Labor Relations Board**, supervises the election. The employer is not allowed to act to influence the election. If a majority of workers vote for the union, the union is certified as the official bargaining agent. The employer is obligated to “bargain in good faith” with the union.

The national unions are organized either as craft unions or as industrial unions. *In a craft union, workers are members of the labor union if they have a certain skill, regardless of the employer they work for.* So we have labor unions of electricians, carpenters, plumbers, musicians, screen actors (this calls itself a “guild”), teachers, and so forth. *In an industrial union, workers are members of the labor union if they work in the same industry, regardless of the type of work they do.* So we have the United Automobile Workers, the United Steel Workers, the United Mine Workers, and so forth. Industrial unions are usually comprised of unskilled and semi-skilled workers. (A semi-skilled worker can operate a machine that most people do not know how to operate, but which can be learned easily.)

In order to have an effective union, all (or almost all) workers must be members of the union. Otherwise, those not part of the union could accept a lower wage and take jobs away from the union members. The early labor unions, which were craft unions, developed the *closed shop*. *This means that a person had to be a member of the labor union before he or she could be hired.* This practice gave the labor union control over the supply of labor. By limiting the number of people admitted into the labor union, it could keep the supply of labor down and wages high. This practice was declared illegal by the Taft-Hartley Act of 1946. Many craft unions, however, still have the same power to control the supply of labor. In many construction trades, the labor union provides the training needed to learn the trade and obtain a license. By limiting how many people can obtain the training, the labor union limits the supply of labor and raises wages.

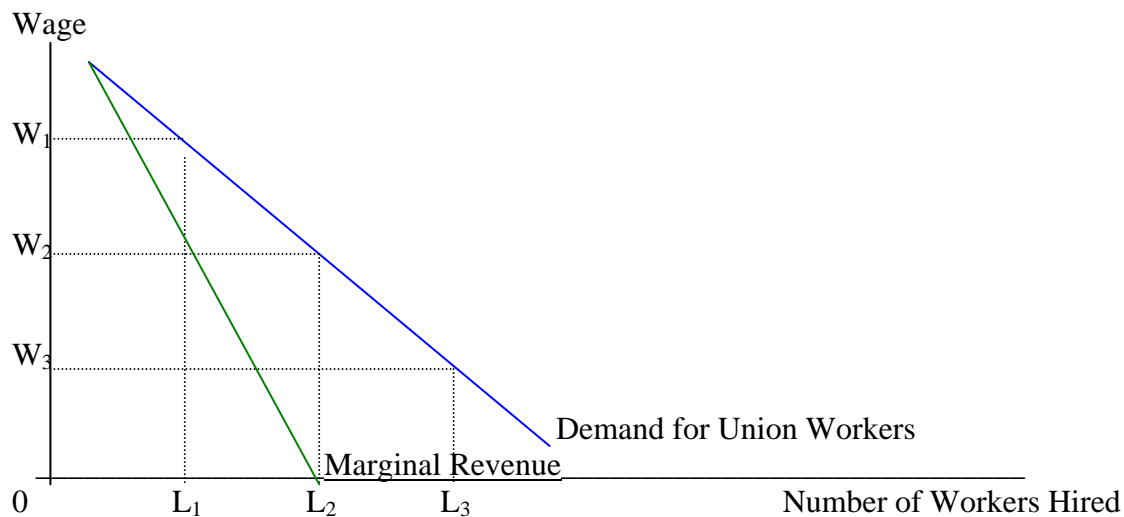
The opposite of a closed shop is an *open shop*. *In this case, anyone can be hired. After being hired, one is allowed to join a labor union if one wishes. But one can also refuse to join a labor union if that is what one wishes.* It is easy to understand why labor unions would oppose this practice.

In California, and 29 other states, two other practices are common. One is called a *union shop*. *If a labor union has negotiated a union shop with the employer, then anyone can be hired. But once hired, a person must join the labor union with a specified period of time (usually 30 days).* If one refuses to join, one will be fired. A similar arrangement is an *agency shop*. *In this case, one does not have to “join” the union after 30 days. But one must pay the union dues.* This issue in this case is not the control over the supply of labor. The employer can still hire as many people as desired (and also which particular people are desired). The issue here relates to “*public goods*”. Recall from Chapter 10 that a public good has certain unique characteristics. It is non-rival and non-excludable. This means that one can get the benefits of the good whether one pays for it or not. **Labor unions tend to provide public goods.** If a labor union negotiates an agreement that enhances job security, all workers have more security, not just those who are union members. If a labor union negotiates an increase in wages, all workers get the higher wages, not just those who are union members. If a labor union negotiates something that improves working conditions, all workers have better working conditions. Therefore, there are incentives for workers to act as “*free riders*”. They want what the labor union is negotiating for. But they don’t want to pay the dues. If joining a labor union were voluntary, large numbers of workers would not join even though they want the service the labor union provides. When joining a labor union is voluntary, labor unions are weak or non-existent.

The Taft–Hartley Act of 1946 allows individual states to pass what are called “*right-to-work*” laws. *These are laws that make the union shop and the agency shop illegal.* There are twenty

states that have such laws. The debate over right-to-work laws is usually in terms of rights and freedom. But in reality, these laws are about the existence of labor unions. This is so because if joining a labor union is voluntary. Large numbers of workers will choose to be free riders. This will make the union very weak. People who support right-to-work laws generally want to see labor unions cease to exist. People who support labor unions vigorously oppose right-to-work laws. It should be no surprise that labor unions have more influence in California than in Arizona, which is a right-to-work state.

A difficult question in analyzing collective bargaining in the United States is to assess the goal or goals of the labor union. The problem faced by the labor union is that the demand for its workers, like all demands, is downward sloping. This means that, if the labor union raises wages, fewer workers will be hired by the company. Assume that the demand curve for the union workers looks like the one below.



If the labor union desires a very high wage, it might bargain for a wage such as  $W_1$ . The trade-off is that a small number of workers ( $L_1$ ) will be hired. The United Mine Workers, in the period from 1930 to 1950, is the best example of a labor union whose single pursuit was wage increases. Partly as a result, the number of workers working in coal mining is now less than one quarter the number of workers of the 1920s. There is little other evidence of a labor union pursuing only high wages. If the labor union desires to maximize the total wage payment to its workers, it would choose  $W_2$ . (To calculate  $W_2$ , you need to draw a marginal revenue curve that is derived from the demand curve. When the marginal revenue is equal to zero, the total wages paid to all workers is maximized. In a homework assignment, you are asked to explain why this is so.) This would require a very complete knowledge of the demand – something a labor union is unlikely to possess. Finally, if the labor union desires to maximize the employment of its members, it would choose to bargain for a wage such as  $W_3$ . In this case, it is assumed that the number of union members is equal to  $L_3$ . This behavior would lead to a wage close to the competitive wage and would question the reason for having a labor union at all. Therefore, labor union behavior is complex. Labor unions are concerned with some combination of high wages and high employment, a combination that cannot easily be explained.

The main method that labor unions have used to achieve their goals has been **the strike**. In the decade of the 1970s, there were over 50,000 strikes involving over 20 million workers. Since then, the number of strikes has fallen considerably. However, some of the strikes, such as the strike of the grocery workers in 2003, have been particularly bitter. The purpose of the strike, of course, is to deprive the employer of profits. But the workers are also depriving themselves of wages. Most studies have shown that, if a strike lasts at least three weeks, the gain to the workers in higher wages will not be enough to make up for the lost income over the time of the strike. If workers often do not gain enough to make up for the lost income, why would they strike? The answer is that striking is necessary at certain times in order to maintain a credible threat that they will strike. If workers threatened to strike but, realizing that they would lose income, never did so, employers would learn to take the threat of a strike as meaningless.

How does the labor union “win” a collective bargaining engagement? As in all bargaining, the labor union asks for more than it is willing to settle for while the employer offers less than it is willing to settle for. Where they eventually settle is determined in large part by market forces. The employer must worry about the lost sales due to the strike. This is the reason that the United Auto Workers typically picks out only one of the automobile companies to bargain with first. If the United Auto Workers bargains only with Ford and has to strike Ford, the Ford Motor Company will lose a considerable part of its sales to General Motors and Chrysler. This loss of sales increases Ford’s desire to settle. After the settlement, the United Auto Workers will use the results of the Ford settlement to bargain with General Motors and Chrysler. On the other hand, the employer will try to substitute non-union workers for union workers, especially if the labor union goes on strike. For a long time, labor union members would carry picket signs while on strike and other workers would refuse to cross the picket line. Anyone doing so was socially ostracized as a “scab”. Today it is much more common for people to act as strikebreakers. Thus, when Albertsons and Vons faced a possible strike from the Retail Clerks’ Union in 2003, they openly advertised for “temporary employees”. (Hiring a new worker to permanently replace a worker who is on strike is illegal.) The case below seeks to explain the relatively weakness of the unions of farm workers in California.

**What does the evidence show about the effects of labor unions?** First, it is clear that labor unions have acted to raise the wages of their members. In 1997, the median weekly earnings for full-time workers were \$640 compared to \$478 for similar non-union workers --- a premium of 34%. Union workers were also more likely to have health care benefits than non-union workers (85% as compared to 74%), more likely to have pension benefits (87% compared to 78%), and much more likely to have short-term disability benefits (73% compared to 47%). One of the reasons that union workers receive more is that they work in industries that typically pay better. Therefore, it is not true that all of the gain received by union workers is a result of their belonging to the labor union. However, there have been many studies trying to determine just how much of the wage premium results specifically from the actions of the labor union. All of these studies have shown the existence of a wage premium for union workers. *Depending on the time, the wage premium for union workers has ranged from about 15% to about 25%. This means that union workers earn 15% to 25% more than these same workers would earn if they did not belong to a labor union.* The union wage premium in the United States is considerably larger than in other countries. *Second, labor unions seem to raise the wages of similar workers who are not members of the union.* This is true for workers in large non-union

plants. Studies done in the early 1980s indicated that the effects of union activities spill over to non-union workers, who find their wages 10% to 20% higher, their benefits improved, and their procedures similar to those found in the unionized plants. *Third, unions tend to be a major factor equalizing wages between workers.* Inequality in the United States has increased dramatically during the 1980s and 1990s, as labor unions declined in significance. *Fourth, unions tend to increase job stability for workers. Because of this, fifth, unions tend to actually increase the productivity of the workforce (although there are many exceptions to this point.).* In unionized companies, there is less turnover of skilled workers. This lowers the costs of hiring and training new workers. It also preserves firm-specific job skills, described in Chapter 23. And the seniority arrangements, which are very common in union contracts, increase the likelihood that senior workers will share their experience with junior workers, increasing company efficiency. *But sixth, unions raise wages so much that, even with higher productivity, they do act to lower the profits of companies.*

Since the 1950s, the percent of workers belonging to a labor union (called *the “union density”*) has been declining. In 1954, 35% of all workers were union members. In 1997, only 14.1% of workers belonged to a labor union. For those in private non-agricultural industries, this figure was less than 10%. But for those who work in government, the figure was 37%. Outside of government, unions seem to have become much less significant than these once were. Why has this important change occurred? There have been many reasons suggested. These typically involve the economic changes that have been occurring in the United States. *First, unions historically have tended to be strong in mining, construction, manufacturing, and transportation. More recently unions have been strong among government employees.* As a proportion of the American labor force, these industries have been declining since the 1950s. *Second, unions have been strongest among blue-collar workers.* The percent of the labor force who are blue collar workers has been falling while the percent of the labor force who are white collar and service workers (much less likely to be unionized) has been rising. *Third, there have been shifts in the location of economic activity.* The American South (a region where unions have traditionally been weak) has seen its share of production and jobs rise considerably while the Northeast and Middle West (regions where unions have traditionally been strong) have seen their share of production and jobs decline. *Fourth, traditionally women are much less likely than men to belong to labor unions.* Partly this may result from the types of jobs that women have held. Partly, it may result from the fact that, in the past, women did not see their attachment to the labor force as permanent. As was discussed in Chapter 23, the percent of women in the labor force has risen dramatically. *Fifth, traditionally union members were most likely to have a high school or less than high school education.* Those with some post high school education have been much less likely to belong to labor unions. *And sixth, labor unions have been strongest in larger workplaces.* But the average size of workplaces (that is, the number of employees per workplace) has been declining since the early 1960s. Why labor unions have been strong among specific people and in specific places is the topic of one of the assignments for this section. It is clear that the American economy has changed in ways that weaken labor unions. One study from the early 1980s estimated that perhaps as much as 60% of the decline in union density is explained by these economic changes.

This would still leave much of the decline in union density to be explained. Some researchers believe that high unemployment has contributed to the decline. *Generally, labor unions are strong when there is full employment and are weak when unemployment is high.*

Unemployment has been high for much of the past 40 years. When unemployment is high labor unions have great difficulty winning wage increases. Other researchers believe that the shift to greater competitiveness has contributed to the decline. *Labor unions have been strongest where competition has been weak. Collective bargaining was often about the distribution of the economic profits.* As competition increased, largely from the increase the foreign trade (see Chapter 28), there were no economic profits to fight over. *Finally, some researchers explain the decline in union density as a result of an increase in opposition to labor unions from employers.* As was noted above, the union wage premium rose considerably in the 1970s. Not coincidentally, employer opposition also increased at that time. Employers have fought labor unions very hard in certification elections and have pushed to have labor unions decertified. In addition, the federal government became more politically conservative starting in 1980 and therefore became more hostile to labor unions. Employers fought the labor unions partly because of the higher wages, partly because of the restrictions that a contract with a labor union might place on the freedom to manage, and partly because of the adversarial nature of relations with many labor unions.

### Industrial Relations in California Agriculture

California is a national leader in the production of fruits, vegetables, and horticultural specialties. These products require a large number of workers to do basically low-skilled jobs. (Labor costs range from 20% to 50% of all costs of production – much higher than found in most manufacturing companies.) Farm work in California is highly concentrated. Although there are nearly 25,000 farms employers, about 2/3 of the wages paid to farm workers are paid by just 5% (1,250) of these employers. There have been three major periods of attempts to organize California's farm workers into a labor union. The most recent attempt came from the middle 1960s to the middle 1980s. These attempts have ended largely in failure. Their failure teaches us much about labor unions.

Most farm workers must put together a series of farm jobs. Finding jobs is difficult for them. Fewer than one out of every eight farm workers have finished high school or speak English. About 30% of farm workers are undocumented immigrants. To overcome the many difficulties they face, the workers rely on specialists --- **farm labor contractors**. Employers deal with these contractors and not with the workers. Most farm workers receive an hourly wage --- typically the minimum wage. Farm wages have averaged about half of wages in manufacturing.

Labor unions tried unsuccessfully to organize farm workers several times prior to the 1960s. In 1962, Cesar Chavez moved to the small town of Delano to organize farm workers. In 1965, his organization was leading a strike against growers of table grapes. Chavez's strategy was different from previous unions. He believed that if the strike were depicted as powerless, poor farm workers against rich, greedy, corporate giants, consumers would side with the farm workers and would boycott table grapes. The strategy worked. By 1973, the UFW claimed 180 contracts and 67,000 members. This was the peak for the UFW.

Farm workers were not covered under the National Labor Relations Act. So, in 1975, California passed its own **Agricultural Relations Labor Act**. It created an Agricultural Labor Relations Board to hold elections to determine if the workers desired to be represented by a labor union and, if so, by which labor union. Between 1975 and 1995, there were over 1,600 elections in California. Almost half (775) resulted in a labor union being certified to represent farm workers. There are nine different unions representing the farm workers. These unions have

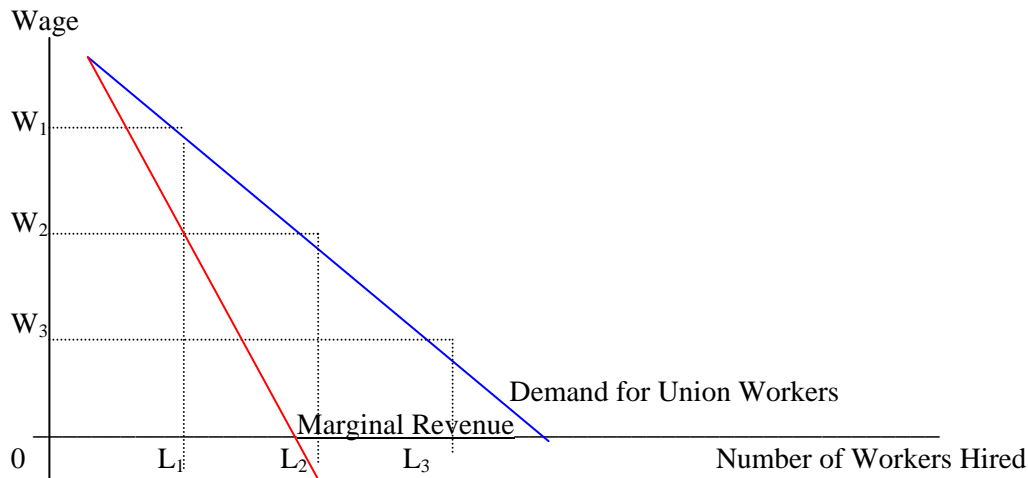
about 30,000 members out of a farm labor force of 800,000 to 900,000.

Farm worker unions have faced considerable difficulty in achieving success. **First, with several competing unions and with many non-union workers (especially due to the large number of immigrants), the ability of employers to find workers to replace striking union workers is great. This makes the demand for union workers quite elastic** and makes it likely that a strike will not be effective. Second, employers have the potential to use machines to replace workers. This also would make the demand for union workers relatively elastic. However, to date, machines have rarely been used to replace workers (except in tomatoes and a few other vegetables). And third, the demand for many agricultural products is relatively inelastic at the retail level. So, for example, when the UFW struck lettuce growers, the price of lettuce rose and so did the revenues of the growers.

Farm worker unions have not had the effects attributed to other labor unions. While they have raised wages somewhat for their members, there is no evidence of a spillover to non-union employers. Nor is there any evidence of the unions generating an increase in productivity by reducing labor turnover. Turnover rates are about the same on farms with unions and those without --- in both cases, very high. Data from the 1990s also indicate that farm worker unions have had very little effect on consumer prices or on the profits of the growers. These have been very weak labor unions.

### Test Your Understanding

1. Assume that the demand curve for the union workers looks like the one below.



If the labor union desires to maximize the total wage payment to its workers, it would choose  $W_2$ . Explain why this is so. (Hint: if marginal revenue (the addition to revenue) is greater than 0, then lowering the wage will cause the total revenue to rise. This means that the demand for labor must be relatively elastic. What happens if marginal revenue is negative? Why is total revenue maximized if marginal revenue equals zero?)

2. In the chapter, it was argued that labor unions would likely be strongest among the following groups of people: workers in manufacturing, mining, or transportation; blue collar workers; workers in larger places of employment; older workers, less educated workers; men. In each case, explain why you believe that these people would be more likely to join labor unions than other workers.
3. Explain why workers are more likely to join labor unions at times when unemployment in the United States is low.
4. Explain why workers are more likely to join labor unions in industries with little competition

5. In the chapter, it was noted that the proportion of non-governmental workers who belong to a labor union has fallen dramatically. What changes do you believe have resulted from this decline? Consider both those changes that you believe are “good” and those that you believe are “bad” – from the point of view of American society.

### Practice Quiz on Chapter 24

1. If different people are paid different wages despite having the same productivity, there is
  - a. price discrimination
  - b. statistical discrimination
  - c. wage discrimination
  - d. occupational discrimination
2. Requiring employers to set up goals and timetables for hiring of under-represented groups is called
  - a. occupational discrimination
  - b. statistical discrimination
  - c. affirmative action
  - d. feedback effect
3. Which of the following is true about immigrants today?
  - a. Immigrants today are doing as well economically as those who migrated 30 years ago
  - b. Most immigrants work in agriculture in the United States
  - c. Immigrants cause a large reduction in the wages paid to native workers
  - d. The increased government spending, necessitated by immigrants, is greater than the taxes they pay
4. If all workers with a certain skill are in the same union, the union is a/an
  - a. craft union
  - b. industrial union
  - c. AFL-CIO
  - d. local union
5. The organization that undertakes political action on behalf of workers is called the
  - a. local union
  - b. international union
  - c. AFL-CIO
  - d. industrial union
6. “Any worker can be hired. But the worker must join the union within 30 days.” This is called a/an
  - a. closed shop
  - b. open shop
  - c. union shop
  - d. agency shop
7. Union oppose “**right to work**” laws because
  - a. “Right to work” laws outlaw strikes
  - b. “Right to work” laws outlaw unions
  - c. Unions provide public goods
  - d. “Right to work” laws require the closed shop
8. Which of the following is true about labor unions?
  - a. Union density has been falling
  - b. Unions raise wages of union workers
  - c. Unions increase productivity of union workers
  - d. All of the above

Answers: 1. C 2. C 3. D 4. A 5. C 6. C 7. C 8. D