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Union Members, Not Minimum-Wage Earners, Benefit When the Minimum Wage Rises

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Supporters of raising the minimum wage argue it will raise the earnings of low-income workers. Labor unions are among the most prominent of these supporters, a fact that makes little intuitive sense, because very few union members work for the minimum wage. Unions, however, are not just being altruistic when they push to raise the minimum wage. A higher minimum wage increases the expense of hiring unskilled workers.¹ This makes hiring skilled union members more attractive and could raise the earnings of union members who compete with minimum wage workers by 20–40 percent.² Meanwhile, non-union, low-skilled workers' earnings actually fall due to reduced working hours and fewer job opportunities.

Unions Support Raising the Minimum Wage. Many groups dedicated to fighting poverty, such as the U.S. Conference of Catholic Bishops, support raising the minimum wage. This makes sense, because many people support raising the minimum wage under the well-intentioned but mistaken belief that it would reduce poverty.³ Some of the strongest advocates for a higher minimum wage, however, are labor unions, whose stake in the issue is less clear.

Last November, organized labor led the fights to raise the minimum wage in six states and to give Democrats control of Congress, in part on a platform of raising the minimum wage.⁴ Yet very few union members work for the minimum wage. Only 2.1 percent of minimum-wage workers belong to a union, versus 12.0 percent of the overall working

population.⁵ Nonetheless, labor unions fight passionately for a higher minimum wage.⁶

Skilled Workers Benefit. Many companies face a basic choice between two ways of making their product. The first alternative is to hire many low-wage, unskilled workers to do the job. The other option is to hire just a few highly skilled and highly paid workers and use more machines to perform the same work. This is not true in all industries, of course—highly skilled workers are not much more productive as house cleaners, and a modern automotive factory has no place for unskilled workers—but this is the choice faced in many industries.

When the minimum wage rises, it becomes more expensive to hire unskilled workers. This makes the decision to employ highly paid and highly skilled workers, instead of unskilled workers, more attractive to businesses, and so businesses want to hire more skilled workers. With skilled workers in greater demand, their job opportunities and earnings rise. Unionized workers tend to be more highly paid and highly skilled than the population as a whole and, so, benefit from this effect.

Union Earnings Rise. Union leaders may well believe that raising the minimum wage is a good pol-

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icy for America, but they also know that it is a good policy for their members. Union members earning above \$7.25 an hour benefit directly from raising the minimum wage because it reduces the competition they face from less skilled workers.¹²

This is not just a theoretical argument. Researchers have found that this is what happens when the minimum wage rises. Using data from government surveys, economists at the Federal Reserve and the University of California–Irvine examined how past increases in the minimum wage affected the earnings of both low-income and unionized workers.⁷

They found that increasing the minimum wage had few statistically significant effects for unionized workers who earn well above the minimum wage. For example, United Auto Workers members in Detroit who earn \$75 an hour do not usually perform work that could be done by any number of unskilled workers. But the minimum wage significantly increases the earnings of union members who compete with low-skilled workers for jobs. The researchers estimated that if the minimum wage were hiked 40 percent, unionized workers who earn between the minimum wage and twice the minimum wage could see their earnings rise between 20 and 40 percent.⁸ The evidence shows that a higher minimum wage unambiguously helps union members.

Low-Income Families Lose. Unfortunately, the opposite is true for unskilled non-union workers who earn the minimum wage. The researchers found that raising the minimum wage actually reduces these workers' earned income. Wages go up, but only for those workers who keep their jobs. In response to the higher minimum wage, employers reduce both the number of minimum-wage workers they hire and the hours of the minimum-wage workers they do employ. The lost hours and jobs mean that, after the minimum wage rises, the average minimum-wage worker earns less.⁹ Union members who earn more than the minimum wage benefit at the expense of minimum-wage workers.

The cost to low-income workers extends beyond lost jobs in the present, however. Minimum-wage jobs are entry-level positions that give workers the skills and experience to be more productive employees and earn raises. Two-thirds of all minimum-wage workers earn a raise within a year.¹⁰ When employers switch to hiring more skilled workers, they make it more difficult for disadvantaged workers to get entry-level jobs and start to climb the career ladder. This hurts low-skilled workers for years after the increase takes effect. Researchers have found that minimum wage hikes reduce the earnings and job prospects of affected workers for over a decade after they are passed.¹¹

1. Rea S. Hederman, Jr., and James Sherk, "Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents," Heritage Foundation *WebMemo* No. 1320, January 23, 2007, at www.heritage.org/Research/Economy/wm1320.cfm.
2. David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution," NBER *Working Paper* No. w7519, February 2000, at www.nber.org/papers/w7519. Figure 3 shows that a 10 percent increase in the minimum wage increases these union members' earned income by 5 to 10 percent. Thus, a 40 percent increase could increase their earned income by 20 to 40 percent.
3. James Sherk, "Raising the Minimum Wage Will Not Reduce Poverty," Heritage Foundation *Backgrounder* No. 1994, January 8, 2007, at www.heritage.org/Research/Labor/bg1994.cfm.
4. AFL-CIO, "Union Member Vote Drove Shift in Balance of Power," Press Release, November 8, 2006, at www.aflcio.org/mediacenter/prsptm/pr11082006a.cfm.
5. Heritage Foundation calculations based on Bureau of Labor Statistics 2006 Current Population Survey merged outgoing rotation group files.
6. See, e.g., AFL-CIO, "Statement by AFL-CIO President John Sweeney On New Record: Longest Period Without Raising the Minimum Wage," Press Release, December 1, 2006, at www.aflcio.org/mediacenter/prsptm/pr12012006b.cfm.
7. David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution."
8. *Ibid.*, Figure 3. See *supra* n. 3.
9. *Ibid.*, Figure 4B.
10. James Sherk, "Minimum Wage Workers' Incomes Rise When the Minimum Wage Does Not" Heritage Foundation *WebMemo* No. 1181, July 28, 2006, at www.heritage.org/Research/Economy/wm1181.cfm.

Conclusion. Unions campaign to raise the minimum wage at least in part because it enriches them. Raising the minimum wage makes unskilled workers more expensive for businesses to hire, and so hiring skilled and highly paid union members becomes a more attractive choice. This effect increases union members' earned income but reduces low-income workers' job prospects and

income. That unions support raising the minimum wage is understandable, but antipoverty advocates should reconsider their support for a policy that hurts the very people they seek to help.

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11. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," NBER *Working Paper* No. w10656, June 2004, at www.nber.org/papers/w10656.