ESSENTIAL QUESTION
“What factors lead to higher wages for a worker?”

Reading HELPDESK

Academic Vocabulary
- anticipate: to expect or be sure of in advance
- distorted: not truthfully represented

Content Vocabulary
- wage rate: prevailing pay scale for work performed in an occupation in a given area or region
- market theory of wage determination: explanation stating that the supply and demand for a worker’s skills and services determine the wage or salary
- equilibrium wage rate: wage rate leaving neither a surplus nor a shortage in the market
- theory of negotiated wages: explanation of wage rates based on the bargaining strength of organized labor
- seniority: length of time a person has been on a job
- signaling theory: theory that employers are willing to pay more for people with certificates, diplomas, degrees, and other indicators of superior ability
- collective bargaining: process of negotiating between union and management representatives over pay, benefits, and job-related matters
- grievance procedure: provision in a contract outlining the way future disputes and grievance issues will be resolved
- mediation: process of resolving a dispute by bringing in a neutral third party to help both sides reach a compromise
- arbitration: agreement by two parties to place a dispute before a third party for a binding settlement; also called binding arbitration
- fact-finding: agreement between union and management to have a neutral third party collect facts about a dispute and present nonbinding recommendations
- injunction: court order issued to prevent a company or union from taking action during a labor dispute
- seizure: temporary government takeover of a company to keep it running during a labor-management dispute
**Lesson 2  Wages and Labor Disputes, Continued**

**Wage Determination**

**Guiding Question**  Why do different people earn different wages?

Most occupations have a **wage rate**. This is a standard amount of pay given for work performed. Wage rates usually differ from one occupation to the next. Sometimes they even differ within the same occupation. There are four reasons for why this happens.

**Noncompeting Categories of Labor**

One reason recognizes four broad categories of labor with different levels of knowledge and skills. The highest pay goes to people in jobs that take the most skills and training. The lowest pay goes to jobs with the least skills and training. Workers in one category do not compete directly with those in other categories. Therefore, wages differ in each of the following noncompeting areas.

- **Unskilled labor**—workers in jobs that do not require special training and skills. People in these jobs work primarily with their hands at tasks such as picking fruit or mopping floors.
- **Semiskilled labor**—workers in jobs that require enough mechanical skills to operate machines. This needs a basic amount of training. These workers may run simple equipment such as vacuum cleaners, lawnmowers, and other machines that call for a modest amount of training.
- **Skilled labor**—workers with higher levels of education and training. They operate complex equipment and perform most of their tasks with little supervision. Examples include carpenters, electricians, computer technicians, and plumbers.
- **Professional labor**—workers who have the highest level of education and managerial skills. Examples include teachers, doctors, scientists, lawyers, and corporate executives.

Of course, there are no distinct boundaries between these categories of labor, but in general, average wages are different for each.

**Market Theory of Wage Determination**

Another reason for differences is based on the **market theory of wage determination**. This theory states that the supply and demand for a worker’s skills and services determine the wage or salary.
For example, if there is a low demand for roofers but a relatively large supply, then wages for roofers would be relatively low. In reverse, with high demand and low supply, wages would be much higher. This describes the market for the services of professional athletes. In this market, a small supply of talent combined with relatively high demand results in higher wages.

You can see this interaction of supply and demand in Figure 9.4. In each market, the intersection, or meet-up, of supply and demand determines the equilibrium wage rate. This is the wage rate that leaves neither a surplus nor a shortage in the labor market.

Exceptions to the market theory may seem to exist at certain times. Some unproductive workers may receive high wages because of family ties or political influence. Or some highly skilled workers may receive low wages because of discrimination. An exception does not cancel the validity of supply and demand, however. It is just an exception.

**Theory of Negotiated Wages**

The third reason for a certain wage rate is due to the power of unions. The theory of negotiated wages states that the bargaining power of a union is a factor that helps to set wages. For example, a strong union may be able to force higher wages because the firm could not afford a work stoppage if workers were to go on strike.

Figure 9.5 supports the theory of negotiated wages. Only 12 major occupational groups are shown. However, the figure is typical because almost all union workers receive weekly salaries that are higher than those of nonunion workers.

Most union workers also benefit from seniority. This is the length of time a person has been at a job. Because of their seniority, some workers receive higher wages than others who do similar tasks, even if they do not have better skills.

**Signaling Theory**

The fourth reason for differences in wage rates is based on signaling theory. This states that employers are willing to pay more to people with certificates or degrees that “signal” superior knowledge or ability. For example, a firm might rather hire a college graduate with a major in history than a high-school graduate who excelled in business courses. While this may seem odd, some firms view a college degree as a signal. It tells them that the person has the intelligence, drive, and maturity to succeed.

You might hear from friends or family that they did not need their college degree to do their job. This sounds as if their education was not important. But, this view overlooks signaling theory, which helps explain why they got the job in the first place.

**Reading Progress Check**

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

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Chapter 9: Labor and Wages

Lesson 2  Wages and Labor Disputes, Continued
Resolving Labor Disputes

Guiding Question  What options are available for solving labor disputes?

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

Collective Bargaining

Labor-management relations usually need collective bargaining. This is negotiation that takes place between labor and management over job-related matters such as pay, hours, and healthcare. During collective bargaining, union officials represent workers, and company labor relations officials represent management. Collective bargaining requires compromise from both sides. The talks over issues may go on for months.

If the negotiations are successful, both parties agree on basic issues. These might include pay, working conditions, and benefits. Because it is difficult to anticipate future problems, a grievance procedure may also be included in the contract. This is a process for solving issues that may come up later.

Normally, union and management are able to reach an agreement because the costs of failure are so high. Workers, for example, have to support themselves and their families. Companies don’t want to lose customers to other businesses. Everyone has good reasons to resolve labor issues.

Mediation

One way to resolve issues is through mediation. This is the bringing in of a neutral third person to help settle a dispute. The mediator’s main goal is to find a solution that both parties will accept. A mediator must be unbiased, or must not support either side, and have the trust of both parties. He or she must learn what each side is willing to give up to come to an agreement.

In the end, the mediator recommends a compromise to both sides. Neither side has to accept a mediator’s decision. But it often helps to get the sides talking to each other again.

Arbitration

Another way to resolve labor issues is through arbitration. In this process, both sides agree to let a third party, the arbitrator, decide how to solve the issues. In cases where both sides must agree to the arbitrator’s final decision, this is called binding arbitration.

Today, arbitration is found in areas beyond labor-management relations. For example, most credit-card companies require disputes with cardholders to be solved by an arbitrator. This means that a credit-card holder can no longer sue the credit card company if there is a dispute. The matter goes to arbitration instead.

Exploring the Essential Question

Imagine that you agree to mow your neighbor’s lawn for a set price. You agree to the price and do the work once a week all summer. The next summer, you think you should get paid more for the job and you want to ask Ms. Smith for more money. What arguments would you make that would be most likely to persuade her to pay you more? What will you do if she refuses to pay more? Explain your answer.
Fact-Finding

A third way to resolve a dispute is through fact-finding. This is an agreement between the union and the firm to have a neutral third party collect facts about a dispute. Then the third party presents recommendations, or suggestions, that are nonbinding. This process can be very useful when each side has distorted the issues to win public support. It is also helpful when one side does not believe the claims made by the other side. Neither labor nor management has to accept the recommendations.

Injunction

A fourth way to settle labor-management issues is through injunction or seizure. One of the parties may request an injunction. This is a court order not to act. If issued against a union, the injunction may direct the union not to strike. If issued against a firm, it may direct the company not to lock out its workers.

Many labor disputes involve an injunction. For example, after professional baseball players ended their strike in 1995, the owners called a lockout. The players then got an injunction against the owners. The 1995 baseball season began, but without a labor agreement.

Seizure

Under extreme circumstances, the government may resort to seizure. This is a temporary takeover of operations while the government negotiates with the union. For example, in 1946 the government seized one part of the coal industry. While operating the mines, government officials worked out a settlement with the miners’ union.

Presidential Intervention

The President of the United States may enter a labor-management dispute. He publicly appeals to both parties to resolve their differences. While rarely used, this can be effective if the appeal has a lot of public support. The president also can fire federal workers. In 1981, President Ronald Reagan fired striking air-traffic controllers. They were federal employees who had gone on strike, even though they had taken an oath not to.

The president also has emergency powers to end some strikes when they might negatively affect the public. For example, pilots from American Airlines went on strike in 1997. This was during a peak travel weekend. President Clinton used a 1926 federal law, the Railway Labor Relations Act, to end the strike less than 30 minutes after it began.

Reading Progress Check

Summarizing In what ways can labor and management resolve disputes?

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