The Politics of Wage Regulation in Rich Democracies

Matthew Dimick\(^1\)  Brett Meyer\(^2\)

\(^1\)University at Buffalo School of Law

\(^2\)London School of Economics

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Do labor unions and left/labor parties always support minimum wage legislation?
Introduction

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- This paper ⇒ formal model and case studies to explain when unions and parties will support or oppose minimum wage.
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3. \( R_t \) evolves across time according to \( R_{t+1} - R_t = h(\mu_t - R_t) \), where \( \mu_t \) is aggregate union density in period \( t \). Steady-state eq.: \( \mu_t = R_t \).
Model Results

1. Control concern. Government wage can be lower than union wage.

2. Substitution effect. Minimum wage has direct positive effect on union wage, but indirect negative effect by lowering union density.

3. Social norm effect. By lowering union density, minimum wage can erode $R$, the proportion of the population that believes in the union social norm.

Main implication: unions and left parties only support minimum wage legislation when union power is "weak."
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Figure: An increase in the minimum wage (e.g., from $\bar{w}$ to $\bar{w}'$) weakens the incentive to join the union: $\frac{d\bar{w}^*}{d\mu} < \frac{d\bar{w}^*}{d\mu}'$. 

Model Results: Substitution Effect
Model Results: Social Norm Effect

Figure: A large enough increase in the minimum wage (e.g., from $\bar{w}$ to $\bar{w}'$) can move the social norm from a high density equilibrium (point $d$) to a low density equilibrium (point $a$).
We demonstrate three aspects of the model empirically:

1. Social Norm/Substitution Effect.
2. Control Concern.
3. Evolution of party positions.

Union Positions: US, UK, Germany, and Sweden.

Party Positions: Germany and the UK
Massachusetts first state to introduce the minimum wage in 1912. FLSA introduces it nationally in 1938.

Samuel Gompers, head of the AFL:

“We want a minimum wage established, but we want it established by the solidarity of the working men themselves... We must not, we cannot, depend upon legislative enactments to set wage standards. When once we encourage such a system, it is equivalent to admitting our incompetency for self-government”
Before FLSA, divide between industrial CIO and craft AFL.

AFL opposed at first, but supported as long as the minimum was low and wouldn’t set wages in their sectors.

Recent Controversy: Unions want exemptions to living wage ordinances for union contracts.
Minimum wage introduced Jan 1, 2015.

DGB confederation supports in 2006. Initial divide between low- and high-wage unions.

*Reasons:* Low-wage unions had difficult time gaining coverage. Became true for some higher-wage unions after the Hartz reforms, which suppressed low-wages.

*Control Concerns:* DGB insisted on minimum wage set by commission, rather than legislature.
Minimum wage introduced in 1999. TUC supported in 1986 after years of disagreement between high- and low-wage unions.

*Thatcher Labor Market Reforms:*

- Stricter conditions for workplace unionization, strikes.
- Privatization

These reforms made it more difficult to set and defend collective agreements and suppressed low-wages.
Confederation LO still opposes minimum wage. > 90% collective agreement coverage, ~ 70% union density.

“If we let the power or the price of labor slip through our fingers...then we will lose a lot of influence. And it will lower the wages, other conditions will follow, and that’s what you learn from other countries.” (LO representative)

Favorable strike law allows unions to strike to pressure employers to sign collective agreements.

Truck drivers’ union investigating minimum wages due to international driver competition. Strikes ineffective here.
German Political Parties

Left Party supports the minimum wage in early 00s. Greens and SPD not until late 00s, after Hartz reforms.

First Left Party Bundestag proposal in 2002; Greens and SPD reject it as intervention in Tarifautonomie.

“...push the low-wage spiral further downward...Low-income groups would see not more reason to fight for higher wage and better working conditions, or to organize themselves in unions.” (SPD representative)

SPD begins to support minimum wage, set by commission after DGB support in 2006.

“The German labor market isn’t threatening to become americanized, it is americanized.” (SPD representative)
Investigated minimum wage in the 60s, but TUC blocked this.

*1983 Manifesto:* “We will discuss with the TUC the possibility of introducing a minimum wage.”

But after the Thatcher reforms and 1986 TUC support:

*1987 Manifesto:* “We will implement a comprehensive strategy for ending low pay, notably by the introduction of a statutory national minimum wage.”

Labour introduces minimum wage when it gains power in 1997.