

Unionization and Poverty

The Case of New York City Retail Workers

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Introduction

Much like the parable of the blind men and the elephant, social policy experts derive remedies for poverty from its different symptoms. Many argue that the root of the problem is a lack of educational attainment. Others focus on marriage, single-parent families, and personal behavior. Still others contemplate changes in welfare and tax systems. But an important means to individual economic empowerment — collective bargaining through trade union membership — is frequently overlooked. This working paper examines the potential role of unionization in the lives of retail workers in New York City.

That many workers struggle economically is, of course, well known. The main solution that politicians and pundits offer is the claim that a recovery is near, but it must be recognized that poor working conditions in New York City are not due solely to the recession and are not likely to be eradicated by a recovery.

Census 2000 data show that working New Yorkers have been losing ground ever since the end of the 1980s. Between 1989 and 1999 the poverty rate in the city increased by 10%, real median family income decreased by 6%, and the real median hourly wage decreased by 3.7%. During the “boom” at the end of the 1990s, conditions improved somewhat, but in 1999, at the height of this economic boom, 26% of New York City families with children under the age of five still lived in poverty. It would be folly, therefore, to expect that an economic recovery would necessarily mean a change in their fortunes.

To improve the condition of New York’s low-paid workers, their hand must be strengthened. Unionization would help them earn a living wage and would also spare taxpayers the considerable cost of supplying them with governmental benefits at current levels.

Are New Industries the Cure?

Any discussion of how to raise low wages in New York City must recognize that the answer does not lie with policies designed to retain or attract firms that pay high wages to highly educated employees. As **Table 1** shows, New York City has more than one million workers whose highest educational attainment is high school or less than high school, and these workers constitute 43% of the employed workforce. These workers will not benefit from policies that ignore their particular needs.

TABLE 1
Educational attainment, all workers,
New York City, 2002

Educational attainment	Workers	Shares
College	1,196,698	35%
Some college	701,798	20%
High school	948,497	28%
Less than high school	585,279	17%
Total	3,432,273	100%

Source: CPS 2002.

Making Work Pay

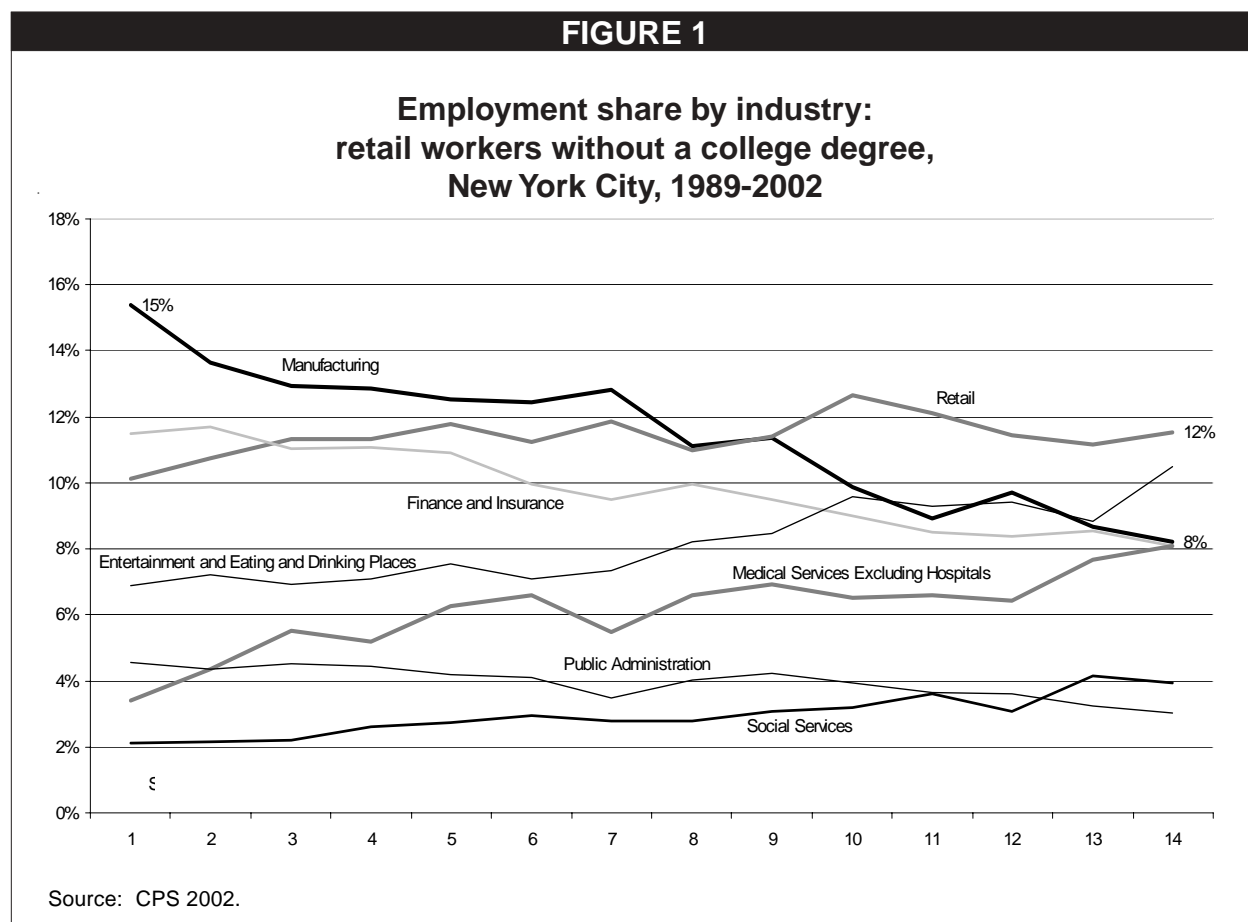
The only way to raise the wages of workers with low levels of education is to make the jobs that they *currently* hold pay decent wages *now*. Raising the wages of retail workers is a good place to start. The retail industry is not the only one that pays less than a living wage, nor is it the only industry in which wages have been falling. But, as this report shows, it is a major player in that camp.

Improving the working conditions of retail workers would have a positive effect on workers in other industries as well. Its unequal nature was the reason that the boom of the 1990s failed to restore workers to where they had been at the end of the 1980s. The very rich consume only a small portion of their income. But raising the wages and benefits of low-paid workers would have a large stimulating effect on the economy, much larger than an increase in income of an equal magnitude that is concentrated at the top.

Taxpayers would also benefit from higher wages in the retail industry. Because of their low wages and the dearth of benefits, many retail workers are recipients of government transfers. The surest way for the city to reduce its welfare budget is to help workers earn a living wage.

The Importance of the Retail Industry¹

Figure 1 shows just how significant the retail industry is to the employment of workers without college education. Figure 1 traces employment in several industries over the last decade. These industries are either large employers or the focus of public policy discussion (manufacturing,



retail, finance and insurance, medical services excluding hospitals, entertainment and eating and drinking places, and public administration) or are notable for large changes in employment (social services). The share of all the other industries that are not shown in the figure was roughly 47% throughout the period.

The share of retail employment has increased significantly among workers with high school or less than high school education between 1989 and 2002, from 10% to 12%. The gains in retail mirror the loss in share of manufacturing, from 15% to 8%. The result is that today the share of retail is more than twice the share of manufacturing, whereas in 1989 the employment share of manufacturing exceeded that of retail. Retail is now the largest employer of workers with a high school education or less.

Like retail, eating and drinking places and medical services also saw a significant increase in employment share. The financial industry — the subject of much hand-wringing about how to keep it in the city — actually decreased its share of employment of low wage workers significantly, from 11% to 8% over the period. The phenomenal profits on Wall Street at the end of the 1990s did not stem this decline.

Thus it is clear that wages and benefits in the retail industry are important to a large fraction of New Yorkers, and are becoming more so over time.

A Profile of Retail Workers

Full-time workers with families

Forty-seven percent of retail workers are at least 35 years of age, and 69% are older than 25. As **Table 2** shows, only 4% of retail workers are younger than 18 years of age. As can be expected from their age distribution, 48% of New York’s retail workers have children younger than 18.² Seventy-four percent of retail workers work 40 hours a week or more.³

TABLE 2
Age distribution, retail workers,
New York City, 2002

Age	Share
<18	4 %
18-24	28 %
25-34	22 %
35-50	33 %
51-65	11 %
66+	3 %
Total	100%

Source: CPS 2002.

The majority of retail workers belong to minorities

As **Table 3** shows, the retail industry is well integrated, with just 33% of the workers being non-Hispanic white. Fifty-one percent of the workers are male.

TABLE 3
Race and ethnicity, retail workers,
New York City, 2002

Race and ethnicity	Share
White	33%
Black	25%
Hispanic	29%
Other	14%
Total	100%

Source: CPS 2002.

“People skills” are what count, not formal education

Most retail jobs require experience and “people skills” instead of high degrees of formal education. This is why, as **Table 4** shows, in retail the level of educational attainment is less important than in other jobs. Only 20% of retail workers have college degrees, compared to 35% in the general population, and 60% have a high school degree or lower, as compared to 45% in the general population.

TABLE 4
Educational attainment, retail and all workers,
New York City, 2002

Educational attainment	Retail workers shares	All workers shares
College	20%	35%
Some college	20%	20%
High school	36%	28%
Less than high school	24%	17%
Total	100%	100%

Source: CPS 2002.

Economic Conditions of Retail Workers

Wages in decline

Figure 2 shows that the average wage of retail workers without a college degree deteriorated markedly, from \$11.18 in 1989 to \$10.53 in 2002. Of course, some of the losses in wages can be attributed to the aftermath of the terrorist attacks on September 11, 2001, but New York retail workers had lost ground even before the attack. As Figure 2 shows, the average wage in 1999 was only \$10.34. The average was higher in 2000, but this high level occurred in only one year and was not sustained.



In explaining such developments it is sometimes argued that education is becoming increasingly important in the economy. But most jobs in retail do not require the knowledge that is acquired in college, as Table 4 shows, so the “increasing importance of education” argument is just a description of, not an explanation for, this worrisome development. As this working paper shows, it is simply not true that the decline of wages in retail is somehow inevitable.

Lack of health insurance

As **Table 5** shows, almost two-thirds of full-time retail workers are not covered by insurance provided either by an employer or a union. About 49% of full-time retail workers do not have any private health insurance at all, not even as dependents on policies in the name of their spouses or parents. Not surprisingly, a large fraction of families of retail workers must rely on publicly provided health insurance, which in many cases covers only the workers' children but not the workers themselves.

TABLE 5
Private health insurance coverage retail workers,
New York City, 2002

	All workers	Full-time workers
Insured by employer or through union	30.3%	34.8%
Insured by spouse or parent	16.6%	16.2%
No private insurance	53.1%	49.0%
Total	100.0%	100.0%

Source: CPS March Supplement, 2002

Consequences for government spending

Table 6 provides estimates of the extent of public benefits received by retail workers. The calculations are based on the best data available, although that data are only a sample of the population in question. The benefits cost taxpayers as a whole (including retail workers) \$783 million for full-time retail workers and \$1.1 billion for all retail workers. Thirty-four percent of retail workers cannot provide their families with health insurance, 17% need help paying for

TABLE 6
Government transfers, retail workers,
New York City, 2002

Program	Number	Percent	Full-time workers	Wage eligibility threshold	Average annual benefits per case	Total cost of program	Cost of program, full-time employees
Expanded Medicaid	110,474	34%	70%	\$10.18	\$6,612	\$730,453,140	\$507,644,932
Public housing or rent subsidies	38,539	12%	69%	\$22.60	\$5,700	\$219,671,749	\$151,160,862
Public assistance	9,339	3%	72%	\$ 6.93	\$3,642	\$34,012,347	\$24,605,121
School breakfast, Lunch, snack	53,724	17%	73%	\$14.12	\$1,526	\$81,983,150	\$59,741,144
Food stamps	14,900	5%	74%	\$ 7.63	\$3,614	\$53,854,648	\$40,067,858
						\$1,119,975,033	\$783,239,918

Sources and notes: See Appendix.

food, 5% receive food stamps, and 3% are on public assistance. Nearly three-quarters of retail workers receiving benefits are full-time workers.

Medicaid

The income eligibility threshold for Expanded Medicaid is \$10.18/hour for a single parent of two children who works full time. In light of this milestone, low wages and lack of employer-provided health insurance force retail workers to resort to the Medicaid program. Thirty-four percent of retail workers live in families in which at least one member — usually a child — receives Medicaid. The resulting cost to taxpayers is a \$730 million a year, even though 70% of workers in families with a Medicaid beneficiary are full-time employees.

Because in most cases only children are eligible for Medicaid, as **Table 7** shows, only 10% of full-time retail workers receive Medicaid themselves. As a result, 38.5% of full-time workers do not have any health insurance at all, either private or governmental.

TABLE 7
Health insurance coverage, retail workers,
New York City, 2002

	All workers	Full time	Full-time, union member
Medicare	1.7%	0.5%	-
Medicaid	13.8%	10.0%	-
Insured by employer or through union	30.3%	34.8%	53%
Insured as dependent	16.6%	16.2%	-
No insurance, either private or government	37.6%	38.5%	-
	100.0%	100.0%	-

Source: CPS March Supplement 2002.

Housing and public assistance

To be eligible for public housing or rent subsidies a single parent with two children must earn less than \$22.60/hour. With this threshold, 12%, or 39,000 retail workers are receiving these benefits, and again almost three-quarters of these are full-time workers. This program also comes at a high cost to taxpayers: almost \$220 million a year (this is the value of the subsidies only and does not include the cost of administering the program).

At \$22.60/hour, the eligibility threshold for housing is high enough that it is perhaps too optimistic to expect that the wages of all retail workers would reach this level any time soon and therefore make the subsidy program obsolete. But the housing subsidies depend on income level, and they decrease by \$.30 for every \$1.00 increase in income. Hence an increase of \$1.00/hour in the wages of workers who receive these subsidies would result in savings to taxpayers of over \$6 million.

Almost 3% of retail workers receive public assistance, and to be eligible, a full-time worker must earn less than \$6.93/hour. Almost 72% of the retail workers who receive public assistance work full time. Public assistance currently costs taxpayers \$34 million a year.

Why Are New York City Retail Workers Losing Ground?

The income losses of New York retail workers were not inevitable. Low levels of education may explain why retail workers make less than other workers, but not why their wages fell during the 1990s. As **Figure 3** shows, retail workers in Chicago without a college degree are in fact better off today than they were in 1989. There is, of course, no doubt that the attacks on September 11, 2001 had a negative effect on wages in New York City. But Chicago retail workers fared better than retail workers in New York even before the attack. As **Table 8** shows, 1996 was the trough year for wages both in New York and in Chicago, with Chicago having the lower wage. Since 1998, however, Chicago's retail workers earned a higher average wage than their New York counterparts in every single year. Retail workers in New York have lost ground, but there is nothing that makes this an inevitable development.

A Governmental Assault on Low-Wage Workers

Wages are, of course, determined to a large degree by supply and demand conditions, and the New York City and state governments contributed significantly to decreasing the demand for and increasing the supply of low-wage workers in the city.



TABLE 8
Average real wage, retail workers without college degree,
New York City and Chicago, 1996-2000

	NYC	Chicago
1996	9.95	9.25
1997	10.11	9.79
1998	9.96	10.06
1999	10.34	10.91
2000	11.55	12.84
2001	10.56	11.06
2002	10.53	10.93

Source: Current Population Survey, ORG, 2002.

Note: CPIU for New York and Chicago Respectively, 2002=100. See notes to Figures 2 and 3 in Appendix.

As for the demand for workers, the most significant impediment to firms that employ workers with low education levels is New York's high rents. The main tool for keeping rents low is zoning. In 2001 the Pratt Institute investigated government zoning policies in the manufacturing center—the industry that used to be the most important employer of low-wage workers—and concluded that:

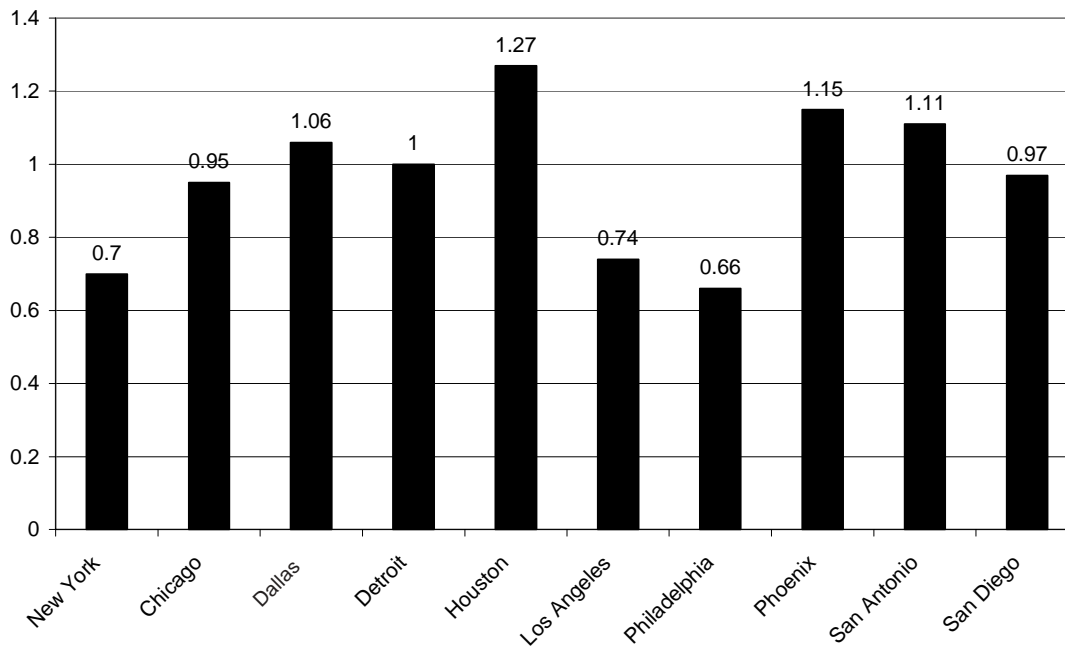
An increasing number of properties in manufacturing and mixed-use zoning districts are being converted to non-manufacturing uses such as commercial and residential space through variances granted by the New York City Board of Standards and Appeals. The cumulative effect of these ad hoc land use changes has been to dramatically chip away at the crucial core stock of manufacturing space in New York City.⁵

Some of the losses in manufacturing are due, no doubt, to foreign competition. Yet the losses in New York City were the greatest among the 10 largest U.S. cities with the exception only of Philadelphia (see **Figure 4**).

The extra push out that manufacturing received in New York City may have come from the city's policy of encouraging the conversion of manufacturing plants to other uses.

On the supply side, the government undertook several steps to significantly increase the pool of low-wage workers. First, between 1995 and 2000 it forced more than 320,000 destitute welfare recipients into the job market, and this exerted downward pressure on wages. In addition, unlike other states (e.g., California, Massachusetts, and Connecticut) that adjusted their minimum wages to inflation and raised them to \$6.70-\$6.75, New York kept its minimum wage at the federal level of \$5.15.

And equally important, the city government decided that workers who provide social services would earn a low wage instead of a living wage. Between 1989 and 2000, the number of private social service jobs increased by 61%, to 110,000. While not all these private workers produce

FIGURE 4**Manufacturing employment growth, New York City, 1989-2002**

Source: CPS ORG, 2002.

governmental services, over 60% of funding for social service agencies comes from government. Thus, the well-being of workers in social services is entirely within the power of the city government to determine. But instead of providing social services itself, with its own workers, the city government chose to use contractors for the provision of these services. Thus a substantial number of jobs that could have provided a living wage ended up paying a low wage. A similar situation exists with the provision of sanitation services. The number of Business Improvement Districts (BID), organizations that provide sanitation services by private rather than public employees, more than doubled over the last 15 years.

What Can Be Done?

If neither the recovery nor governmental policies can be counted on, what can be done to improve the working conditions of workers? The most direct and effective way is unionization. Unionization gives workers the ability to negotiate for their pay and benefits instead of facing a “take it or leave it” choice.

The voluminous research about the effects of unionization shows:⁶

- Unions raise wages of unionized workers by roughly 20% and raise compensation, including both wages and benefits, by about 28%.
- Unions reduce wage inequality because they raise wages more for low- and middle-wage workers than for higher-wage workers, more for blue-collar than for white-collar workers, and more for workers who do not have a college degree.

- Strong unions set a pay standard that nonunion employers follow. For example, a high school graduate whose workplace is not unionized but whose industry is 25% unionized is paid 5% more than similar workers in less unionized industries.
- The impact of unions on total nonunion wages is almost as large as the impact on total union wages.
- The most sweeping advantage for unionized workers is in fringe benefits. Unionized workers are more likely than their nonunionized counterparts to receive paid leave, are approximately 18% to 28% more likely to have employer-provided health insurance, and are 23% to 54% more likely to be in employer-provided pension plans.
- Unionized workers receive more generous health benefits than nonunionized workers. They also pay 18% lower health care deductibles and a smaller share of the costs for family coverage. In retirement, unionized workers are 24% more likely to be covered by health insurance paid for by their employer.
- Unionized workers receive better pension plans. Not only are they more likely to have a guaranteed benefit in retirement, their employers contribute 28% more toward pensions.
- Unionized workers receive 26% more vacation time and 14% more total paid leave (vacations and holidays).

Do Higher Wages Cause a Loss of Jobs?

Attempts to raise workers' wages are usually met with the objection that higher wages will cause a loss of jobs. This argument is no doubt true when it comes to very large or unreasonable raises. If employers were forced by law to, say, double or triple the wages they pay, some jobs would certainly be lost. But at the level of raises that unionization brings about, and given the process of bargaining that occurs before final agreement about wages is reached, job losses due to unionization are not likely.

The issue of what happens when low wages are raised has been the subject of an intense discussion in the economic literature ever since the 1995 publication of *Myth and Measurement: The New Economics of the Minimum Wage* by David Card and Alan Krueger (Princeton University Press 1995). Unlike scientists in medicine, for instance, economists don't have a laboratory in which to conduct experiments. But Card and Krueger's book is about a "natural experiment." In 1992 New Jersey raised its minimum wage while Pennsylvania did not. Card and Krueger compared employment in fast food restaurants in the two states before and after the increase in New Jersey's minimum wage and discovered that in spite of the increase in wages, employment growth in the New Jersey restaurants was not lower than it was in Pennsylvania. There were numerous attempts to refute these findings, but to no avail. While some studies do find a negative effect on employment from raising the minimum wage, even in those studies the job loss is very small. In an Economic Policy Institute study of the issue, Jared Bernstein and John Schmitt conclude:

Opponents of the policy [raising the minimum wage] have often raised the potential disemployment effects, but this analysis shows that minimum wage

increases do not price low-wage workers out of the labor market. The employment effects, while negative in some models, never reach anywhere near the level where the benefits to low-wage workers would be outweighed by their costs in terms of job losses. These findings, especially when taking into consideration the characteristics and incomes of minimum wage workers and their families, provide convincing evidence that the policy is effective in raising the earnings of low-wage workers, most of whom (though not all) reside in below-average income households.⁷

The reason that small increases in pay do not lead to job losses is probably because the technology in retail is one of “fixed proportions”: it takes a certain number of employees to run a store, and employers do not have much flexibility in this regard. Of course, if wage raises are very large, unprofitable businesses would have to close. But when the wage increases are small, very few businesses would be affected.

Most importantly, though, when wages are determined in collective bargaining, the issue of profitability largely disappears. As wage concessions by unionized workers in many industries — from airlines to Broadway theaters — have made clear, workers have a vested interest in maintaining the profitability of their employers.

Conclusion

Profitable businesses should provide their workers with a living wage. This would above all be fair to them and to their families. As was shown above, it would also go a long way to reduce the heavy burden that taxpayers must carry when employers do not pay enough. And as the boom of the late 1990s made clear, when the income distribution is too unequal, not only the poor, but middle class New Yorkers suffer. Higher wages in retail could stimulate the economy in a way that would benefit all New Yorkers, not just those at the bottom.

Local governments in general and New York City in particular are not well situated in these times to increase public expenditures that benefit the working poor. Nor is further education for full-time workers with little time to spare with their low wages a likely solution to family poverty. Unionization needs to be considered as social policy.

Endnotes

1. Throughout this report retail excludes eating or drinking establishments. This conforms to the NAICS classification.

2. CPS March Supplement, 2002.

3. CPS March Supplement, 2002.

4. Includes Child Plus, a program that provides coverage for children.

5. The Pratt Institute Center for Community and Environmental Development. June 2001. *Making it in New York: The Manufacturing Land Use and Zoning Initiative*.

6. Lawrence Mishel with Matthew Walters. 2003. *How unions help all workers*. Washington, D.C.: Economic Policy Institute.

7. Jared Bernstein and John Schmitt. 2000. *The Impact of the Minimum Wage*. Washington, D.C.: Economic Policy Institute.

Appendix

The Current Population Survey

The main data source is the Current Population Survey (CPS). The CPS is a monthly survey of households conducted by the Bureau of the Census for the Bureau of Labor Statistics. The survey has been conducted for more than 50 years. The CPS is the primary source of information on the labor force characteristics of the U.S. population.

Table 6

Additional sources were used for the construction of Table 6.

Government Transfer Recipient, Full Time/Part Time

Source: March Supplement, Current Population Survey, 2002.

Average Level of Benefits

For each program, it is assumed that a recipient receives the average level of benefits.

Expanded Medicaid: Expanded Medicaid includes Child Health Plus. Calculation assumes only one recipient in a household receiving such benefits. Source: New York State Department of Health, “Medicaid Statistics,” October 2002. (The average benefit was of \$675.46 per month per recipient, and the average duration of eligibility was 9.79 months.)

Public Housing or Rent Subsidies: Average is for Section 8 rent subsidy, 2000. Source: B. Deborah J. Devine, Robert W. Gray, Lester Rubin, and Lydia B. Taghavi, *Housing Choice Voucher Location Patterns: Implications for Participants and Neighborhood Welfare*, U.S. Department of Housing and Urban Development, 2003. (Cited in “LIFT, Let’s Invest in Families Today, an initiative of the National Center for Children in Poverty, Section 8 Housing Vouchers.”)

Public Assistance: Mayor Michael R. Bloomberg, “New York City Public Assistance Fact Sheet,” June 2003. Average level of benefits is \$607 for a family of three. Information about the average number of months a family receives benefits is not available. Six months are assumed.

School Breakfast and Lunch: Annual benefit is a simple average of the cost of the free and the reduced cost breakfast and lunch and a snack. Source: U.S. Department of Agriculture, Nutrition Program, “Facts, Food and Nutrition Service,” August, 2002.

Food Stamps: A family of a retail worker that is a recipients receives these benefits on average for 10.79 months a year (March Supplement). Average value for a family of three is \$328. Source: Mayor Michael R. Bloomberg, “New York City Public Assistance Fact Sheet,” June 2003.

Eligibility Threshold

The threshold is calculated for a one-parent, two-children household assuming only income is from salary and wages and 2,000 hours of work per year. The threshold is calculated after all exemptions and disregards. For some benefits, eligibility requires also that assets do not exceed a specified limit; a household who is a recipient has already met this criterion.

Expanded Medicaid: Source: Neighborhood Legal Services, Inc., “Medicaid Financial Eligibility Levels for New York,” Effective January 1, 2003.

Public Housing or Rent Subsidies: New York City Housing Authority, “Income Eligible, Income Admission Limits,” Effective 1/31/02.

Public Assistance: The threshold is for the New York version of Temporary Assistance for Needy Families Cash Assistance (TANF). Source: “LIFT, Let’s Invest in Families Today, an initiative of the National Center for Children in Poverty, TANF, 2003.”

School Breakfast and Lunch: Eligibility threshold is for reduced-cost meals. Source: Compensatory Education Policy Office, Associate Commissioner, Office of New York City School and Community Services, “Income Eligibility Guidelines for Free and Reduced Price Meals,” June 2003.

Food Stamps: Source: U.S. Department of Agriculture, Food and Nutrition Service, “Fact Sheet on Resources, Income, and Benefits,” October 10, 2003.

Figures 2 and 3

Workers without college degrees fall into three categories: Some college, high school, or less than high school. The employment shares of these categories may change from year to year. To neutralize the effect of these changes on the average wage of all workers with less than a college degree, average wage of workers in each category in each year is weighed by the employment share of this category in 2002.