WORLD MINIMUM WAGE: Ethical, Economic and Social Considerations, illustrated by three cases (edited version)

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Abstract

The concept of a fair wage, when applied to the global village and international business, suggests that all working people be paid a world minimum wage (WMW). In this article, the authors take an ethical and strategic perspective of business and economics. They review three very different cases --- Canada's once leading Eaton's (retail) and U.S. corporations Nucor (steel) and Nike (sportswear) --- to illustrate that a singular and self-absorbed profit motive only achieves short-term gains, while concern for people, including working conditions and wages of employees, provides a much better basis for long-term survivability. As explored later in this paper, fair wages are so important to society and business that we must set our collective wills to seeking the creative solutions that will make it happen as soon as humanly possible.

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INTRODUCTION

The cover of the June 1996 issue of *Life Magazine* shows a photograph of a Pakistani male-child worker sewing together pieces of materials to make Nike basketballs in the dirt. A 2003 and 2004 sponsored television advertisement on CTV, Canada's leading commercial television station, exhibits a female-child stricken with leprosy for want of what her parents cannot afford --- "three little pills taken daily for a cost of less than $1 per day for at most a year." These make for difficult and frustrating viewing, especially since they provide evidence for the indictment of a system that would reduce people to child labour and begging. Instead, opportunity must exist for parents to earn decent wages that allows them to care for their children. These two children catapult us back to the resentment and righteous anger that was felt for cruel kings and heartless governments for exploiting the world during the 18th century "industrial revolution". We can even go back to King John who, under compulsion from his nobles, laid the foundation for political and personal liberty – if not the economic liberty that would come seven centuries later – with his signing of the Magna Charta (or Carta) in 1215.

The genesis of minimum wage was not a result of abstract economic theory but a practical response by politicians to past deprivations, when workers were paid less than subsistence, if they were fortunate enough to find paid work at all. Today, minimum wages exist in most states and provinces in all Western countries despite frequent calls for elimination by economists writing introductory economics texts. Minimum wage is difficult to explain within utilitarian economics but it is not difficult to describe in terms of example. Caves and Associates (1968) provide this early illustration: "Not all aspects of labor input have been quantified. For example, better nutrition may have raised the quality of Italian labor, particularly in the early 1950s. There may be changes in how hard people work that are not related to hours of work …." In other words, people often work harder, and better, when they have access to the means of sustenance; namely, through wages. However, human dignity, not raising "the quality" of labour alone, is the primary reason for paying a wage that affords "better nutrition".

Expectations of fair wage rates and reasonable working conditions, shared by employers and employees alike, also result in a market wage rate that will generally move above the legislated minimum wage, because few employers wish to be seen as paying the lowest possible wage rates. Wages, like everything else in life, may be subject to moral suasion, a lesson that needs to be kept in mind when reviewing the evidence that follows. Minimum wages do not necessarily make a country less competitive or less attractive as a place of production, unless we are talking about tolerating the slave labor conditions that were rejected in principle by Western civilization.

RESEARCH QUESTION AND APPROACH

The question of fair wages implies our hypothesis: one part of the world can and does affect others, for better or for worse. The question of fair wages also involves a real choice since we cannot ignore the consequences. We are our brothers' and sisters' keepers whether or not we share this ideology. We phrase the research question this way: Do good companies pay minimum wages? If not, then what effects do minimum wages have on good and not so good companies, where good is defined in terms of society, e.g., producers, consumers, employees, suppliers, competitors, communities and nations?

The growing concern about "greed and corporate wrongdoing" indicates to us that there is too little awareness of a moral philosophy that would see the legitimate needs of all stakeholders in business treated well as a matter of course. Greed that results in paying lower than necessary wages, to made more profit, is a failure at the core of business and society, as the editor of the Academy of Management Review was forthright enough to admit. His response was to call the Academy to task for having failed in its originating mission "to foster 'a philosophy of management that will make possible the accomplishment of the social and economic objectives of an industrial society'". He called on present researchers "to confront a novel opportunity to advance research in the ethics/business and society area", and to make up for "the benign neglect by past researchers of topics such as corporate social responsibility" (2003, p. 363). We see both this philosophical failure and this call as profound challenges, since we too believe in the social and economic potential of our industrial, democratic and capitalistic, society.

We use principle as well as case examples of well-known firms to test our ideas on what democratic capitalism could offer global markets, when it captures the essential spirit of enlightened business and economics described by Adam Smith in his *Wealth of Nations*, the most influential book ever on these subjects, published in 1776, also the year of U.S. independence. What is easily overlooked in Smith's classic work is his assumption that business and economics should be subject to common law and uncommon decency.

There is general agreement on Adam Smith as an advocate of free trade (he saw this as a means for increasing wealth and advancing the public good). However, there is much disagreement on what Smith meant about his notion of free trade, especially in terms of how much license to allow businessmen of the time. Nathan Rosenberg (1976) illustrated the issue this way: "Adam Smith was no apologist (though it cannot be denied that apologists have used – and misinterpreted – Adam Smith for their own purposes). On the contrary, his central preoccupation was to prevent businessmen from pursuing their own interests in antisocial ways" (p. 24). In short, capitalism is only up to the job when its "free hand" is curbed of exploitative tendencies. As mentioned earlier, our approach is to review some relevant theory and case study evidence. This is all in the public record. We then assess how people are treated and paid in the workforce. Our hypothesis is that wages, working conditions and ethics standards will be useful indicators for what else is likely right and wrong in the firm and with the world of business.

SOME ECONOMIC ARGUMENTS FOR MINIMUM WAGE

David Card and Alan Krueger (1995) precipitated a change in the way minimum wages were viewed when they had published *Myth and Measurement: the New Economics of the Minimum Wage*. Up to then, most economists accepted --- without much evidence it appears --- what Des Moore (2002) describes as "the 1946 plea by Nobel Laureate Stigler 'for economists to be outspoken, and singularly agreed' … "that setting a minimum wage above market will reduce employment at the bottom end of the labor market thereby increasing unemployment rates for unskilled workers" (p 164). Card and Krueger's (CK) new evidence called into question Stigler's long-standing injunction against minimum wages. Raising the minimum wage apparently led to higher not lower levels of employment, a result credited to (1) the relatively low minimum to median wage that prevails the U.S. and (2) the wages in the fast food industry that was studied are under control of dominant firms with monopsony, or "sole employer" power.

Higher employment at higher wages apparently also led to modestly higher average prices, a phenomenon noted with surprise by CK in 1995 and later given theoretical support by Sheppard (2002). In their article in *Foreign Affairs*, Ross and Chan (2002) observed that where both conditions exist, monopsony power and low wages, the poorest of poor compete to "race to the bottom in wages and conditions." In other words, monopsony power applies with a vengeance in cases where international companies employ workers in poor countries that have no enforced minimum wages.

SOME ETHICAL ARGUMENTS FOR MINIMUM WAGE

The five common approaches to business ethics may be grouped into two basic positions: (1) *self interest and utility*, where morality is judged on (a) how much individual choice is allowed as against (b) how much aggregate benefit (and cost) there is for the group; and (2) *duty, rights and justice*, where morality is judged on (c) respect for others, (d) individual rights such as free speech, and (e) the extent that opportunity and wealth are fairly distributed to all. In business, a common approach is to use stakeholder analysis to look at how benefits or harms occur, within and outside the firm (see Weiss, 1994 for typical stakeholder treatment).

The first position focuses on self-interest whereby firms are to maximize profits for owners and supply benefit to producers and consumers alike. Labour is a factor input. Many economists, notably Milton Friedman (1970), advocate such a minimalist view.

Their major contention is that business ought not to be doing anything other than pursuing self-interest, subject to following rules by government to guard against abuses.

The second position assumes that the minimally guided market remains open to abuses by the most unscrupulous players who drive business down to its most vicious forms. Proponents of the second position focus on observed behaviour of business leaders who act more as moral agents for society than simply maximizing profits for owners. Agent-managers who only follow self-interest most often over reward themselves and are prone to other unethical business practices that can place the firm at risk. Finally, burdens of unscrupulous exploiters and polluters, for example, can result in such unfair competition and poor social outcomes that the potential of democratic capitalism becomes inverted.

That lessons may be drawn from each position reminds us of Aristotle's injunction not to engage in extremes. Weiss' advice is that justice and rights, not only self, make for good business conditions. Hillel's famous saying applies here. "If you are not for yourself, who are you? And if you are only for yourself, what are you?" It is a privilege and duty to do well <u>and</u> to look out for others. Three examples of enterprise should be sufficient to test the ideas in the brief review of the economics and ethics presented above. These are:

(1) Eaton's Retail of Canada for what to do and what not to do when influencing a nation, first through business leadership and later through its opposite, with ultimate failure;

(2) Nucor Steel as a benchmark of innovation, efficiency and national concern; and

(3) Nike Footwear as an example of an innovative company that allegedly skirted social responsibility, and then responded to criticism by placing more weight on business ethics.

EATON'S OF CANADA

The T. Eaton Company, or Eaton's, was founded by Timothy Eaton in 1869. Timothy Eaton and the store that he founded changed the way Canadians shopped and it became known for quality goods offered at one very attractive competitive, nationwide price, and for offering these quality goods with a guaranteed return policy. These were not the only innovations of the times. Timothy Eaton allowed senior employees --- who were treated as associates --- to do their own departmental purchasing as early as the 1870s.

Timothy Eaton had his own good ideas, but that he also listened and acted upon the good ideas of others, embracing his super-ordinate idea of sharing on merit, such as when he came to realize that his staff and sales clerks were the people most familiar with customers' preferences. Historians (e.g., Santink, 1990), business reporters (e.g., McQueen, 1998) and business academics alike were all impressed with Timothy Eaton's ability to credit a good idea. Here is one example: "Back from a buying trip from Europe, Timothy was surprised to see women thronging to the second floor of the store where some \$5 and \$6 dollar coats had been designated 'old lines' for sale at \$2 and \$3. "The very thing," declared Timothy. "Just the idea I wanted" (Poulin and Hackman, 2001, p. 98).

Timothy Eaton paid a base wage that was typical of the retail industry, and increased the wages of those who did a better than ordinary job. Eaton acted his convictions on what life was about: serving his conception of a good God by generally treating people well. However, Timothy Eaton was not perfect; he seemed blind to the need to employ minorities, hiring the Irish and English in preference to hiring Jews, for example.

In 1907, Timothy Eaton died, forty-seven years after founding and building the Eaton's retail empire. His proudest accomplishment was to reduce days of work to five and a half, and hours of work for a normal day to eight, this at a time when 10 to 12 hours and six day work weeks were the norm in Canada. Nationwide, the Eaton's standard was to become Canada's standard, led by Eaton's example. Eaton's had truly become "Canada's Greatest Store" and market share continued to climb after his passing, to an astounding 58% of Canada's retail merchandise by the mid 1950s.

However, by the end of the 1980s, all ideas had either run their course or been crowded out by the profit motive, and the once proud flag-bearer of the Canadian business establishment fell in a spiral of losses that saw the company file for and emerge from bankruptcy protection twice in the 1990s. The pension plan for Eaton's employees was not fully honoured and the store, as a separate entity, finally ended in 2000 when the skeletal remains were purchased by Sears Canada for a pittance. We learn the following:

Eaton's and Timothy Eaton generally practiced the timeless purpose of treating self and others well, a philosophy that lends dignity to giver and recipient. In the early years of Eaton's, customer, owner, employee, community and nation were all considered to have a stake in the company and together each enjoyed the experience and benefits of success. We also see that this can eventually fail if top management cashes in on the reputation of the firm to pursue a profit motive to the exclusion of, notably, employees (Poulin and Hackman, 2001).

NUCOR STEEL

Nucor is a very interesting case for a number of reasons, not the least of which is its integrated approach that rewarded customers with exceptional value and their employees with secure jobs at more than twice the prevailing manufacturing wage rates, when base rate and incentives are added together (Ghemawat, 1999; www.nucor.com, Feb. 2004). How is it that Nucor enjoyed lower costs than other mini-steel mills and large, integrated steel mills in the U.S.A. and abroad, when its overall wages were not the lowest?

Nucor also started with a relatively low base-wage to satisfy the need to keep costs and prices down. However, unlike Eaton's, Nucor was fully committed to see that all employees were well rewarded, not only key employees and managers, and productivity-based incentives provided wages that went well beyond the median wages for the steel industry. This balance between pragmatism and ideal was supported by technical and market innovations that allowed the company, over a period of 30 years, to go from a nearly bankrupt purveyor of unrelated products under the banner of Nuclear Corporation of America to the largest, most profitable steel producer and steel recycler in the U.S.

The turnaround of the company began with the appointment of Ken Iverson as Chief Executive Officer (CEO) and President and Samuel Siegel as Vice President of Finance and Chief Financial Officer (CFO) in 1965, and together they sought to lower cost and improve quality and service in innovative ways. By the early 1970s, Nucor was manufacturing and distributing light commercial steel products and competing in 25% of the North American (NA) markets. By the mid 1980s, Nucor had entered a joint venture with a Japanese firm to produce large wide-flange structural beams and columns, acquiring a further 6% of the NA market.

In the late 1980s and early 1990s Nucor pursued a joint venture with a German firm to develop a leading-edge mini-mill technology to produce larger flat plate steel, an advent that allowed Nucor to compete in another approximately 50% of the NA market.

These ventures effectively allowed access to all major markets in NA and Nucor became the first mini-mill to supply the market with products at a lower cost than major NA and international competitors, despite the much lower wage rates prevailing in other countries exporting steel to the U.S.

Mintzberg et al. (1998) observe that one key to Nucor's success is "consistency" but not so much consistency as to lose "the ability to experiment and innovate" (p.17 & p.19). Consistency also meant that wage differences between managers and employees were not huge, contrasting with other major corporations. Other keys are how and why the organization accomplished its attractive mission through a simple structure and efficient system that gets the most from and for its people. We may never really know Iverson and Siegel's original guiding philosophy for Nucor. It was never formally written and, sadly, Ken Iverson died in 2002. Perhaps the guiding purpose and philosophy of the firm that he and Sam Siegel and others built might be expressed this way:

Nucor believes in an ethos of service to customers, community and country through meaningful employment of people who develop needed products and services at lowest cost and highest value. Nucor's structure encourages individual and collective effort and teamwork – the people of Nucor are involved at all levels, from assembler to president, and the rewards are shared equitably, with educational and other opportunities being provided for the next generation, the children of Nucor's associates. We believe in treating all people well. At Nucor, each of us having a stake in the success of the company enjoys the benefits of individual and collective effort.

Nucor met Milton Friedman's self-interest criterion but did so much differently than might be suggested by his stark formulation of profit maximization alone. People were treated with dignity, not simply as "factor inputs" or even as "human resources". Those at Nucor seemed to have found a proper balance between self-interest, utility, duty, rights and justice for all.

In short, the intention and result at Nucor indicate the potential of democratic capitalism in the hands of capable managers and ethical leaders --- quite simply, inspiring!

NIKE INTERNATIONAL

Nike is the company that advertised that it had found a new model of conducting business: design a stylish and functional range of sports and recreational shoes, sub-contract out 100% of the manufacturing to the cheapest sources around the world, and promote the product by association with the most well-known, highest paid, most attractive athletes in the world. This simple ploy, saving money in manufacturing to pay for marketing promotion, worked spectacularly through the 1970s and into the 1980s and Nike's name became synonymous with its famous "swoosh" logo (Austin, 2002).

However, by the mid 1980s Nike had missed the aerobic sports shoe market and became embroiled in controversy over news reports of its products being manufactured in foreign plants where workers were under age, were paid appallingly low wages, and worked in unsafe conditions. Phil Knight, CEO and founder of Nike, defended himself by stating that the firm did not actually employ the people where the labour abuse took place --- Nike stated that it sub-contracted out the labour. Technically, this was true. However, this did not wash with many in the North American youth and college crowds, a major part of Nike's market. Workers earning $1 a day in Indonesia became associated with Nike's contracted sports icons such as Tiger Woods and Michael Jordan who were given millions of dollars for promoting Nike products. By 1997, Director Michael Moore had screened Phil Knight in the following episode from his documentary film *The Big One*:

Moore: "Twelve-year olds working in factories? That's O.K. with you?"
Knight: "They're not 12 year olds … The minimum age is 14."

Nike's stock value plunged 60% and public outcry was such that Phil Knight reversed his position and advertised on Nike's website that it had "a zero tolerance for underage workers." Today, Nike faces more competition than ever before in a field it once almost completely dominated. Nike's overemphasis on profit has arguably hurt the company in relative terms, although it must be said that Nike remains very profitable at this point, and Phil Knight and Nike have gone to considerable lengths to repair the damage caused by perhaps a one-eyed view of business and society (Austin, 2002; www.nike.com, Feb. 2004). We learn from Nike:

The profit motive alone can be counter-productive, particularly when labour may be exploited, even when the company is not directly involved. Nike illustrates that the business imperative to make profit, without social responsibility, is a risky venture.

MINIMUM WAGES AND THE THREE CASES

It is clear from the cases that profit, however necessary, provides insufficient reason for businesses to survive in the long term. While good operators do not pay minimum wages, except as an entry point for inexperienced and unskilled labour, minimum wages do set a lower bound for how far other employers can go in squeezing costs from employees.

Excessive concern with profit and too little concern for the well being of others, as indicated by how employees are treated: (A) runs counter to the interests of the business community and the nation in the long term and fails the test of being strategic; (B) undermines the very reason for society to support business since business is to provide surplus, not exploit its citizens who support the firm with their labor; and (C) provides incentives for unscrupulous owners and managers tend to drive out of business more innovative and better operators who do not stoop to exploit other persons or groups.

Is there sufficient evidence after exploring only three cases to make such claims? We believe so and we base this assertion on the fact that these cases represent different time frames, different geographies and different industries, and yet common principles apply. It is as if the results of three different experiments were mutually reinforcing. That common principles apply in different cases should not surprise us since, as Karl Weick (1979, 1996) points out, organizations are economic, social, psychological entities that reflect human nature --- at its best, and worst.

SETTING MINIMUM WAGE LEVELS

So the question of minimum wage in business is not whether we need one; rather it is a what level the minimum wage should be set in each region and in each state or country. The developed West has some experience in setting minimum wages that might be usefully transferred. Moore (2002) reports that Australia and France have set relatively high minimum wages at 58% and 61% of the median wage and they contend these countries are at or beyond the minimum wage threshold described by Card and Krueger. The Netherlands, New Zealand, Canada and the U.K. set minimum wages at a moderate 42% to 47% of the median wage compared to U.S. at a low 36% minimum to median wage ratio. This suggests that minimum wages might be set between 40% and 50% of the median wage in each state or country. This range should be prudently conservative since it ignores the motivational effects of more generous wages that are reported by Caves (1968), for example. Some special conditions would indicate raising the ratio, such as when firms are found to have monopsony power in poor countries.

One simple approach that has been suggested is to engage the United Nations and/or the World trade organization (WTO) in setting up the framework and establish a body to enforce the application of minimum wages. The implementation of such a framework must take into account aspects that reflect country specific differences, for example, in living and subsistence costs as well as, say, expected rates of productivity improvements, all expressed in a common internationally acceptable currency such as $US. The challenge with the United Nations and the WTO is the all too human propensity of members to behave in self-serving ways. To avoid this, measures would be needed to counter this tendency. For example, committee membership could be limited to countries that have made progress or are increasingly and significantly progressing towards individual human freedoms (freedom of press, freedom to hold property), human rights (equal opportunity of races, sexes, religions) and social justice (under rule of reasonable law and a functioning and just court system). Such reforms are difficult and are not expected in the short term (Ross and Chan, 2002).

Another alternative would be to set a “made in each country” minimum wage that affords some quality of life at present and hope for the future. In any case, a world minimum wage might encourage international companies to pay more, but not less, than an established wage base, and would thereby provide a common standard against which each company and nation would be assessed. Also, the establishment of an international World Minimum Wage may accelerate progress towards a larger, more equitable wage goal. Finally, labeling goods and services as “WMW” abiding would encourage Nations and industries to bring in more products and services under the WMW umbrella, in the same way that canned tuna is labeled “dolphin friendly”, or woolen goods receive the “Wool mark” label. Consumers have shown they care about conditions under which goods are produced.

CONCLUDING THOUGHTS ON WMW: IDEAL AND REALITY

It is difficult to fault Nucor as the kind of company that represents the best of democratic capitalism. Ken Iverson, now sadly deceased, helped us see how we may make the world a better place, each in our own way, by respecting the rights and engaging the potential of people in paying good wages. Timothy Eaton also offers us an example of integrity long after his passing, although not to the same extent. Even Nike is cause for hope, and indicates that a firm can improve, and treat others better. So why not set a world minimum wage, via a credible group representing the people of countries who truly aspire to be world citizens? Others who do not and will not treat people with respect and dignity do not have to be made full trading partners.

Of course, we need to do more than set wage standards and label goods and products, but for now let us aim for “World Minimum Wage” as a base standard, and encourage others to offer a higher standard as soon as they can. Then let us buy, preferentially from those who can meet these standards, as may be affordable by each nation. Finally, let us export a view of democratic capitalism as is worthy of the kind of human beings we need to become. As suggested by this article, fair wages for all are the means to eliminate evils in the world such as deprivation, child labour and untimely death. The evidence suggests that any reasonable democracy must demand fair wages, since work at fair wages is of primary importance to people. Exploitation of any person or group gives democratic capitalism a bad name and, as such, threatens our existence.

We cannot expect equitable wage goals to “happen naturally”. As Adam Smith advised, such goals have to be carefully “arranged” and developed over time --- part rules, part example --- if only because not all or most in business will alone volunteer, without persuasion, for the good of others as well as themselves. Only by such leadership will our way of life continue to improve, and so be worthy of emulation by others who seek a good life. Finally, with the Nucor case meeting all ethics tests, we may now have more confidence in examining how firms pay and treat their employees, as indicators of what the present and founding editors of the Academy of Management Review raised as needed most in business: “a philosophy of management that will make possible the accomplishment of the social and economic objectives of an industrial society.”

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