

Labor monopoly
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ECONOMIC IMPLICATIONS OF UNION POWER

NATIONAL ASSOCIATION OF MANUFACTURERS

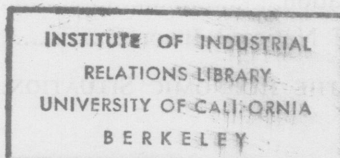
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ECONOMIC IMPLICATIONS OF UNION POWER



RESEARCH DEPARTMENT •
NATIONAL ASSOCIATION OF MANUFACTURERS •
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Foreword

Labor unions in this country have been granted, or have assumed, extraordinary powers not available to other private groups. In large part this has occurred because of the widespread assumption that unions need such powers to promote the welfare of working people.

It seems fair to subject that assumption to objective analysis. Just what have been the effects of labor union power on the economy in general and on employees in particular?

The present study is offered in answer to these questions. It is not primarily concerned with the legal issues involved in union practices nor does it make recommendations for dealing with union power in any of its manifestations. Rather, it is an examination of the broader economic implications of union power. It analyzes the impact of unions on real wages, money wages, productivity, employment and the distribution of the national income.

Some readers will recognize this approach to the implications of union power as a type of analysis which has a tradition as old as the phenomenon of unionism. Others will find it new and, possibly, provocative. We feel that it is a significant contribution to thought and discussion on this important public issue.

The author is Dr. Lillian W. Kay of the NAM Research Department.

CHARLES R. SLIGH, JR.
Executive Vice-President
National Association of
Manufacturers

June 1962

Issues and Attitudes: The Setting of the Problem

Labor unions, in one form or another, have existed throughout our national history and have come to play a major role during the past thirty years. Powerful labor unions are part of the environment in which more than 40 per cent of our population (those under 25 years of age) have been brought up and educated. Union power has been established long enough to be accepted, even by most older people, as part of the way things are. Because the phenomenon of strong unionism *is* part of the contemporary American scene, it is important to examine its impact on our economy and our society. Such a study could be approached from several points of view—the historical, the legal, the sociological, among others. To the extent that these approaches are separable, this paper is a study of the economic impact of unions.

The Range of Issues

The issues presented to the American public by contemporary unionism cover the gamut of our economic activities and interests. Thus, if economic growth is a major problem of the economy, we should know whether labor unions contribute to or hamper growth. If growth requires improvements in the productive efficiency of the economy, we also must know how unions affect such efficiency. If an ever-increasing standard of living for all is desirable, we must ask how, and if, it is related to unionism. If inflation is a threat to the entire economy, we want to know how unions influence the soundness of the dollar. If unemployment is a major concern, we must ask whether there is a relationship between union demands and employment levels.

From time to time we hear that some important subject has been referred to a committee representing “labor,” “management” and “the public.” This classification assumes that the interests of these groups are opposed, or at least different, and that “the public” is somehow separate from those who produce goods and services. Of course, labor, management and “the public” have a mutual interest in the well-being of the economy. However, one real issue of our times is whether those whose primary concern is the development of unions as an institution contribute to, impede—or have no effect on—the attainment of this broader goal.

Many suggestions for legislation affecting the economy, particularly at the federal level, reflect union policies, although they are only remotely related to hours, wages or working conditions. The public must eventually decide whether this is a desirable way to formulate public policy. It surprises no one when the support of organized labor influences the outcome of an election. However, the political power which this reflects is a matter of comparatively recent history and it is enlightening to inquire into its origins.

This study explores the consequences of strong unions against a background of both long- and short-range developments. Among the latter: unemployment levels high enough to cause concern in an economy where employment, too, is on the rise; problems in meeting foreign competition; a relative decline in the importance of certain segments of the economy which happen to be highly unionized; a leveling off, if not a slowdown, in the rate of unionization; a series of strikes which have centered around, or had as a major item of contention, "management prerogatives;" an Administration which seems to be willing, or even anxious, to act as a "third force" in labor disputes.

Among the longer-range background factors, the most evident and readily identifiable is certainly the more than a quarter-century of legislation and judicial interpretations relating to unionism and union security. A second is the assumption that unions in the United States are "only interested in economic matters" and that, as long as they are not advocating socialism or communism, they cannot be a threat to our economic and political institutions. The third, and most pervasive, is the prevailing theme in about a half century of writing and discussion that unions are not only "good" but are necessary for the well-being of the employed segment of the population.

The last point undoubtedly explains to a great extent the granting to unions of extraordinary powers. The purpose of this study is to analyze the validity of that claim. ~~The study seeks an answer to the question: have unions contributed to the economic well-being of their members and other employees?~~ This is a different question from that of the right of unions to exist. The right of voluntary association is fundamental in our society and is not dependent on proof of the achievement of specific social purposes.

The Range of Attitudes

The prevalent, although not unanimous, evaluation of labor unions in American society is generally favorable. This is confirmed by public opinion surveys. Although reservations are entertained on "abuses of union power," the majority believes that unions have gained substantial advantages for American workers that they would not otherwise possess.

The data in Table 1 are from a nationwide public opinion poll, using a probability sampling of 6,038 individuals. As is usual, the total group was subdivided for purposes of analysis on the basis of social and economic characteristics that are assumed to influence such opinions. Some of those sub-groups are included in Table 1 for purposes of comparison and discussion.

Of these questions, the first evokes the most general approval of unions. Whatever the basis for subdivision of the total, no group showed an "agree" figure lower than that of the farmers (62 per cent). This is a situation, too, on which the "no opinion" group is relatively small. When the evaluation shifts from the well-being of the "workingman" to that of the country (question 6), opinion becomes slightly more critical—although more than half believe that unions contribute to the country's prosperity. Here group differences become more pronounced—as between union and non-union households and between farmers and skilled workers. Also, the proportion of "no opinion" responses increases. The only group in which as many as one-third doubt the unions' contribution to national prosperity is "proprietors and managers."

The most critical response is evoked by question 4. More important than the proportions of those who think that labor's gains have been at the expense of other groups, is the high proportion of "no opinion" responses in all groups. If we attempt to glean a descriptive statement from this progression, we come up with: Unions are necessary to the workingman—and may even be important to the nation as a whole—but they sometimes achieve their results in ways which are unfair to other groups. The widespread acceptance of the idea of union achievement (at least for workers) leads people to minimize—or even ignore—basic criticisms of unions. They are willing to condone actions which they would unhesitatingly condemn if they were isolated from the supposed good ends of unionism.

The fact that unions no longer confine their activities to bargaining with respect to wages and hours means that the crucial questions about them must also change. The major current issues have to do with power, individual rights and the flexibility of the economy. There is an increasing tendency to qualify the majority view by expressions of concern over the growing power of labor unions. For example, the late Justice Jackson is frequently quoted as having said that the labor movement has come full circle, "permitting to employees the same arbitrary dominance over the economic sphere which they control that labor so long, so bitterly and rightly asserted should belong to no man."¹ There is also the phenomenon Hayek notes: that people still talk about labor's right to "freedom of

¹Dissent in *Hunt v. Crumboch*, 1945.

Table 1*

**QUESTION 1: “. . . Please tell me whether you agree or disagree:
Labor unions are very necessary to protect the workingman.”**

	<i>Agree</i>	<i>Disagree</i>	<i>No Opinion</i>
Nationwide public	73%	15%	12%
<i>By occupation:</i>			
Farmers	62	20	18
Proprietors, managers	67	21	12
Professionals	76	15	9
Skilled Workers	76	14	10
<i>By union affiliation:</i>			
Union member households	89	5	6
Nonunion households	67	18	15

**QUESTION 6: “. . . Please tell me whether you agree or disagree:
The gains that labor unions win for their members help make the
country more prosperous.”**

Nationwide public	56%	24%	20%
<i>By occupation:</i>			
Farmers	43	31	26
Proprietors, managers	45	36	19
Professionals	57	27	16
Skilled workers	62	22	16
<i>By union affiliation:</i>			
Union member households	73	14	13
Nonunion households	49	27	24

**QUESTION 4: “. . . Please tell me whether you agree or disagree:
The gains that labor unions have made for their members have been
at the expense of other groups in this country.”**

Nationwide public	37%	32%	31%
<i>By occupation:</i>			
Farmers	46	19	35
Proprietors, managers	46	30	24
Professionals	41	39	20
Skilled workers	33	39	28
<i>By union affiliation:</i>			
Union member households	27	47	26
Nonunion households	41	26	33

*Reproduced by permission of Opinion Research Corporation, Princeton, N. J., from *Forces Shaping the Decline of Labor Union Power*. August 1960, pp. A-1, A-4, A-6.

association” when the issue has become freedom of the individual to join or not to join a union.²

Recent developments have led one observer to the conclusion that Americans are out-of-date in their opinions on the labor movement. Donald Richberg, who was co-author of the Railway Labor Act, one-time chief counsel for the railway unions and one of the authors of NRA, wrote in 1957:

“... that they should be able, even while they became the oppressors, to persuade the public that they remained the spokesmen for the oppressed was hardly short of incredible.”³

There are those who refuse to be disturbed by the growth of union power. Their arguments introduce the issue of the unions’ motives as proof of their right to power. The idea that any concentration of power is “good” is so contradictory to our general beliefs that some of labor’s spokesmen find it necessary to equate “unions” with “we, the people”—

“I see no harm in power, if it is power dedicated to human values, if it is power for good—and that is what the trade union movement seeks.

“Obviously, concentration of power in the hands of a few can be dangerous to the general welfare. But when unions become more powerful, it means that the people of this country become more powerful. It is merely a practical application of the basic principle of democracy.”⁴

Not a denial—but a rationalization.

One aspect of the unions’ favorable position is that, while power in the hands of business people is generally regarded as wrong and dangerous *per se*, power in the hands of unions is generally regarded as wrong only when, and to the extent that, it is abused. The fact that the power to control is, of itself, deemed against public policy is the basis for anti-trust legislation. Yet some people, who are properly critical of such power when it is held by others, introduce the question of the unions’ intentions in attempting to rationalize union power.

David McCord Wright has commented that:

“... there is no hope for intelligent union policy until the public has been brought to the degree of sophistication concerning union power that it now has concerning business power ...

“... The stereotype of the business man as necessarily predatory confronting the labor leader, necessarily altruistic, is still strong ... Once the public sees the contestants as free from halos there is more hope. It is

²Hayek, F. A.: *The Constitution of Liberty*. Chicago: University of Chicago Press, 1960, p. 268.

³Richberg, Donald R.: *Labor Union Monopoly: A Clear and Present Danger*. Chicago: Henry Regnery Co., 1957, p. 41.

⁴Meany, George: *Power—for What?* AFL-CIO, undated, publication no. 97.

much easier to deal with a wolf than with a wolf in sheep's (or angel's) clothing."⁵

There are some who see the accretion of power as a negative aspect of an essentially good process. However, the line of criticism which alleges that, whereas they were good in the past, unions have now attained "too much" power leads to ambiguous conclusions which, understandably, confuse the public. A more fundamental criticism, which has been voiced by a long line of economists for as long as unions have existed, asserts that unions can raise the living standards of their members only at the expense of other working people. A recent and succinct statement of this view is:

"... workers can raise real wages above the level that would prevail on a free market only by limiting the supply, that is, by withholding part of labor. The interest of those who will get employment at the higher wage will therefore always be opposed to the interest of those who, in consequence, will find employment only in the less highly paid jobs or who will not be employed at all.

"The fact that unions will ordinarily first make the employer agree to a certain wage and then see to it that nobody will be employed for less makes little difference. Wage fixing is quite as effective a means as any other of keeping out those who could be employed only at a lower wage. The essential point is that the employer will agree to the wage only when he knows that the union has the power to keep out others. As a general rule, wage fixing (whether by unions or by authority) will make wages higher than they would otherwise be only if they are also higher than the wage at which all willing workers can be employed."⁶

Whether they agreed or disagreed with this fundamental criticism, economists formerly discussed the role of labor unions in these terms. Now even many sophisticated people ignore the question of the broad economic effects of labor unions. Yet there is evidence of these effects all about us. The practice of ignoring, rather than analyzing, the broad-gauge effects of unions is apparently due to emotional attitudes arising out of the historical development which will be described next.

Historical Development of Attitudes Toward Unions

The fact that an opinion has a strong emotional basis does not prove that it is either "right" or "wrong" in a factual sense. The intensity of the predilection does, however, influence the interpretation of facts. It is, therefore, important to understand the process by which the view that

⁵Wright, David McC.: "Regulating Unions." In Bradley, Philip D. (ed.) *The Public Stake in Union Power*. Charlottesville: University of Virginia Press, 1959, pp. 122-123.

⁶Hayek, *op. cit.*, p. 270.

labor unions have made a great contribution to the welfare of the American people has come to prevail.

When the intellectual of the nineteenth century looked at industry, he saw smoke and slums, hazardous occupations and long working hours. If he had looked beneath the surface, he would also have seen that an already-increasing standard of living was drawing people to the very industries that offended him. He might, perhaps, have understood that this was a stage in economic development. If the "boss" had more than the "worker," the worker had more than his grandfather. One historical approach could have led to the conclusion that workers could look forward to improved conditions in both work and reward.

However, the historical interpretation that caught the imagination of many intellectuals was that of Marx, which placed the responsibility for the conditions of the workers on the fact that there *were* bosses; that capitalists "exploited" labor. Hayek has pointed out that, if capitalism created a proletariat, it is in the sense that it gave the opportunity to earn a living to many hundreds of thousands who could not have done so in an agrarian system.⁷

Ludwig Von Mises has commented on the understandable sympathy people have toward wage earners' desire for rapid improvement of their material conditions, adding:

"The economists were not to blame for the fact that emotionally they agreed in this regard with the majority. What was wrong with the attitude of many of the older economists was that they blithely endorsed popular fallacies about the methods to be applied for the realization of this desirable end."⁸

While this intellectual attitude was developing and becoming entrenched, events were being interpreted in its terms. Two are probably most significant: (1) the repeated phenomenon of the business cycle, with recurring periods of severe unemployment; and (2) the passage of anti-monopoly legislation, with the accompanying publicity given to "big business" and "robber barons." The result, especially during and after the severe depression of the 1930's, was to give the unions a great advantage in winning public support and in having favorable legislation enacted. Both the public support and the favorable legislation then made it possible for unions to gain their present powerful status in American society.

As we have already pointed out, economists and others have been concerned about the implications of unionism for as long as there have been unions. Yet one point of view, in what has been a matter of serious

⁷Hayek, F. A.: *Capitalism and the Historians*. Chicago: University of Chicago Press, 1954, pp. 15-16.

⁸Von Mises, L. in preface to new American edition of Hutt, W. H.: *The Theory of Collective Bargaining*. Glencoe, Ill.: The Free Press, 1954, p. 10.

debate for more than a century, has achieved the status of axiom in the United States, probably because of the way in which people learn economic history. The same educational process has modified other beliefs and values, such as those dealing with personal responsibility. Dunlop comments on this specifically, saying that the "Poor Richard" philosophy is "hardly the ideal text for the organization of a labor union." He continues:

"This set of ethical standards which has pervaded the ethos of the American community until recently places the economic destiny of a workman in his own hands rather than in a labor union . . . The *trend* of standards of personal morality and social and economic philosophy has moved in directions more congenial to the flowering of unionism . . . The trade union has a more nourishing ethos."⁹

This comment brings us back to a basic question: are the trade unions "nourished" at the expense of other groups and the economy? The economic performance of unions is a separate question from the right of employees to organize in voluntary associations. Some of the questions raised can serve only to stimulate thought and discussion. The effect of unions on millions of people over several generations cannot be demonstrated with the high degree of statistical certainty that constitutes proof in the physical sciences. Nor can controlled experiments be designed for this purpose. However, it is possible to study the trends that contribute to, or follow from, such a complex phenomenon as unionism; to note causal relationships; to predict probable consequences.

Against this background, we turn to an examination of the relationship between union membership and union power.

⁹Dunlop, John T.: "The Development of Labor Organization." In Lester, Richard A. and Shister, Joseph (eds.) *Insight into Labor Issues*. N. Y.: The Macmillan Co., 1948, pp. 187-188.

Union Membership and Union Power

The fact that union members number less than a majority of the non-agricultural work force is sometimes used to discount the significance of union power. However, the nature of union power is such that it is relatively independent of numbers. Further, the proportion of unionized workers is very high in such important segments of the economy as manufacturing, mining, transportation and construction.

Although there were rudimentary unions throughout the early part of the nineteenth century, historians date a serious labor movement in the United States as stemming from the Knights of Labor, which reached its organizational peak in the 1880's. Others suggest the period of World War I as a starting time. The discussions of many contemporary economists and trade unionists suggest the 1930's (Section 7a of the National Industrial Recovery Act or the Wagner Act) as the effective start of the union movement in the United States. Numerical growth to a significant proportion of the work force certainly dates from this last period, although individual industries (such as the railroads) were highly unionized before.

Who Is Organized

In 1960, according to the United States Department of Labor, the estimated membership of national and international unions with headquarters in the United States was 18,117,000. Of these, about 15.1 million were in AFL-CIO affiliated unions. (Membership within the U. S. was 17.5 million.) The proportion of union members in the United States has been very nearly constant at about one-third of non-agricultural employees since the end of World War II. The slight change which has occurred has been in a downward direction—union membership was 35.1 per cent of the non-agricultural labor force in 1954 and 32.1 per cent in 1960.

The geographical and industrial distribution of union members enhance the power of unions. About 8.5 million union members were in manufacturing industries; approximately the same number were in private non-manufacturing; the remainder in government. Reports on AFL-CIO members indicate that one-half of its total membership is concentrated in five states—New York, Pennsylvania, California, Illinois and Ohio. Ten unions accounted for almost half of the total membership—Teamsters, Steelworkers, Auto Workers, Machinists, Carpenters, Electrical (IBEW), Mine Workers, Ladies' Garment, Hotel Workers, Hod Carriers. Of these, the teamsters and the miners are independent; the remainder are AFL-CIO affiliates. There were 43 unions reporting 100,000 members or more.¹⁰

¹⁰Data from Cohany, Harry P.: "Membership of American Trade Unions, 1960." *Monthly Labor Review*. December 1961, p. 1299 ff.

Recent trends in the make-up of the labor force have been adverse to the growth of union membership. Generally, better educated people have resisted unionization. So have women. The educational level of the work force is rising constantly and the proportion of women in it is increasing. In addition, the shift from production to service as a major source of employment is a shift from industries with high rates of unionization to those with generally low rates of unionization. The possibility arises that these shifts will tend to reduce the proportion, although not necessarily the number, of union members in the labor force. If this analysis is correct, the unions may have passed their organizational peak in terms of the proportion of employees they represent.

This does not mean that they have passed their power peak. What is more likely is that they will explore new ways to exercise and exploit that power, including political action. It is frequently noted that Congress did not deliberately *give* unions a preponderance of power. Rather, the direction of policy was to “even things up,” to give labor “countervailing power” so that employees could have adequate bargaining strength. As a consequence, there has emerged a steady and insistent accretion of power and the phenomenon of protected private power in a society that dreads private power.

The Nature of Union Power

The question of whether unions are or are not monopolies is fraught with emotional overtones. But in the light of logic it is difficult to see why anyone should deny that unions are, in fact, monopolies. The term is used as definition, not opprobrium. If unions are not monopolies, they are not doing the job they have undertaken. Even Secretary of Labor Arthur Goldberg, when he was counsel for the United Steelworkers, gave some recognition to this phenomenon:

“Technically speaking, any labor union is a monopoly in the limited sense that it eliminates competition between workingmen for the available jobs in a particular plant or industry. After all, all unions are combinations of workingmen to increase, by concerted economic action, their wages, i.e., the price at which the employer will be able to purchase their labor.”¹¹

In addition, unions limit the choices of the employer (when strikes, picket lines and boycotts cut him off from other supplies of labor) and of the consumer (when production is reduced or prices are raised). However, Goldberg challenges the applicability of the concept of monopoly to unions on the basis that they do not destroy or suppress competition in the markets for goods and services.

¹¹Goldberg, Arthur J.: *AFL-CIO: Labor United*. N. Y.: McGraw-Hill Book Co., Inc., 1956, p. 157.

But the essence of competition is that purchasers should have a wide range of choices with respect both to what they buy and where they buy it. Union actions do limit such choices. An industry-wide wage pattern enforced by a union can raise labor costs to the point where some firms go out of business. So can a union-backed minimum wage law. Similarly, a union policy against working on materials from abroad, or those produced in non-union establishments, affects firms within an industry. A strike, sometimes even the threat of a strike, can cause an industrial customer to buy his supplies elsewhere or to shift to a substitute. Even if management attempts to continue production during a strike, picketing can drive away customers and suppliers. No one can really say that such effects of union activities have nothing to do with competition among the companies involved. A particular union, in any given instance, may be unable to exert such power—or may refrain from doing so. However, the potential is there.

As a popular concept, the term “monopoly” is usually associated with business—particularly with “big” business. In its economic meaning, however, monopoly is the condition of controlling the supply of something. If it is difficult for people brought up on the idea of the “underprivileged unions” to think of them as monopolies in the popular sense, they need only look about them to see that unions are monopolies in the technical sense. The fact that unions qualify under this technical definition of monopoly does not mean that each union action is necessarily a matter of serious national concern. Some may be trivial. It is clear that many are not.

On some occasions the entire nation becomes aware of union power. For example, the steel strike in 1959 not only halted production in the basic steel industry but affected such steel-using industries as construction. Similarly, work stoppages at missile bases or atomic energy installations make the country aware of union power. At other times local disputes, involving relatively few workers, attract national attention because of their dramatic consequences. One relatively recent example is the strike of 664 tugboat crewmen that brought traffic to a halt in New York harbor.

The logical demonstration of the accuracy of the phrase “union monopoly” does not in itself imply the proper course for public policy. Even among those already concerned about union power, there are differences with respect to the focus of their concern. Some concentrate on criminality and corruption (see p. 29); others on numbers affected; still others seem to have in mind some definition of “good” as against “bad” concentrations of power. This last approach is reminiscent of some of the discussions about concentration of business power during the period before the passage of the Sherman Anti-Trust Act. There were then some who saw

advantages in “good combinations” that would eliminate the allegedly wasteful aspects of competition. However, when policy decisions were made, it was clear that power—not competition—was considered the evil.

No attempt will be made in this paper to establish criteria for distinguishing between cases where union power is “monopolistic” only in a technical sense, and cases where it is a serious economic force with broad economic impact. This is an important question but one which we will leave to others.

What Unions Maximize

A business monopoly is said to direct its activities toward the maximization of profits. There is no comparably clear economic answer to the question of what unions maximize. Even on the matter of membership, some unions make aggressive attempts at organization while others restrict membership through such devices as initiation fees, apprenticeship requirements, etc.

Because of the nature of the labor market—that is, because the union members theoretically retain their individual rights as workers but turn over the responsibility for the terms of employment to the union—some economists liken them to cartels, rather than to monopolies. This is a technical difference, which may be harder to demonstrate as collective bargaining determines more and more of the non-wage aspects of the employment agreement. Union determination of who shall work, who shall be laid off, how increases are to be distributed and how the work is to be divided, constitutes control of very significant individual rights. Bargaining strength rests with the union, as an institution, rather than with the employees.

There is, therefore, often a conflict between what will strengthen the union *per se* and what will benefit members. To the extent that this is resolved in favor of the unions, what they maximize is power. This is exercised not only over members but, increasingly, by limiting managerial functions and by influencing public policy.

The maximization of union power emphasizes the nature of the union as a new force in our national life and makes it necessary to consider it as a para-economic, rather than a purely economic, institution. Although unions exert great power over the economy, directly through collective bargaining and indirectly through political influence, there is growing awareness of these para-economic characteristics. One of the most obvious aspects of this phenomenon is the extent to which what are basically psychological (rather than economic) arguments are used to justify the support given to unions by public opinion and public policy.

Psychology and the Unions

During the period that unions have been acquiring power, the study of human motivation has been developing. It is, therefore, not surprising that there has been a good deal of "psychologizing"—and some observations by psychologists—about unions. The way was paved for this approach when economists began to "humanize" their subject.

From this latter stream of activity there came the description (now rather widely and uncritically accepted) of the modern industrial worker "lost" in a vast impersonal enterprise. The trade union is then seen as the vehicle for re-establishing a sense of belonging and a sense of status. When the family and the parish could no longer prevent the feeling of helplessness against the vicissitudes of modern life, Tannenbaum writes: "Something else was required, and the only available means of satisfying the demands made by human helplessness fell by default to the union and to its chief competitor, the state."¹² Cox, in a comparable vein, sees the union as the vehicle for the "human drive toward self-advancement." In the modern economy, reduced "to routine tasks and often counted as mere units of labor, they craved a share in industrial decisions affecting them."¹³

A paper on the subject of the psychology of trade union membership, delivered before the Menninger School of Psychiatry, reviewed several studies to reach the consensus that the union member "appreciates" the economic benefits of unionism and feels stronger in his relationship with his employer.

"Yet only a minority of workers feel an emotional attachment to the union such as one feels for family or friends . . . For many American workers, particularly those who have lived in rural areas, it is very difficult to identify emotionally with the union when all their lives they have identified with the American dream of being one's own boss and maintaining one's God-given rights of individualism."¹⁴

If what the employee appreciates is his improved economic status, it may be that he is satisfied with the economic system that provides it, and seeks his emotional attachments elsewhere. The description of members' reactions raises a question as to whether the "decline in the Poor Richard philosophy," deemed essential to the growth of unionism, is as widespread among Americans as some would have us believe. Too much is already known about individual motivation to dismiss the possibility that many workers have unconscious needs which can be satisfied by some

¹²Tannenbaum, Frank: *A Philosophy of Labor*. N. Y.: Alfred A. Knopf, 1951, p. 147.

¹³Cox, Archibald: *Law and the National Labor Policy*. University of California at Los Angeles: Institute of Industrial Relations, 1960, p. 1.

¹⁴Karson, M.: "The Psychology of Trade Union Membership." *Mental Hygiene*, 1957, p. 88.

form of group identification. The question, however, is whether the contemporary union is the answer.

Observation of the large unions makes it necessary to ask whether the individual in the UAW, or the Steelworkers, or the Teamsters, has more of a feeling of "sharing decisions" than he would have if he were not a union member. If a psychological need does exist, arising from the impersonalness of large-scale industry, does large-scale compulsory unionism fill it? If a man wants to participate more in decisions affecting him, is he satisfied when union leaders, for institutional reasons, "wrest from the company" contributions to a union-controlled pension fund instead of a cash increase? These questions lead to some interesting speculations, although there are obviously no definitive answers.

Röpke writes of the worker's desire to escape from dependence as a moral reaction and sees a threat in the tendency of unions to create new hierarchies and dependencies:

"This kind of dependence may become intolerable and overshadow anything that an industrial company may impose on its workers and employees, whenever trade-unions obtain the right to dictate that no one may be employed in a company or profession without belonging to the union."¹⁵

In a series of writings over a period of about twenty years, Erich Fromm has stressed the "insignificance of the individual"—in all his roles—as a major psychological problem of our time. His writings are often cited in discussions of unconscious dissatisfaction with one's work situation. Fromm is also a critic of what he calls the "market values" we put on all the activities in our lives. His economic solutions are far from conservative. In the book in which he set forth the idea that some people turn to authoritarian institutions because they are psychologically unwilling (or unable) to cope with the responsibility of freedom, we find this on trade unions:

"Unfortunately many unions themselves have grown into mammoth organizations in which there is little room for the initiative of the individual member. He pays his dues and votes from time to time but here again he is a small cog in a large machine."¹⁶

It is an interesting paradox that, as management has become more aware of "the human equation," many unions have become impersonal bureaucracies.

One concludes from reading Fromm that not everyone desires the "moral independence" of which Röpke writes. This may be true. If it is, dependence on employers should not be less satisfying than dependence

¹⁵Röpke, W.: *A Humane Economy: The Social Framework of the Free Market*. Chicago: Henry Regnery Co., 1960, pp. 239-240.

¹⁶Fromm, Erich: *Escape From Freedom*. N. Y.: Rinehart & Co., Inc., 1941, pp. 126-127.

on the union. If, as we would expect from studying our national history, Americans generally do not seek to escape from freedom, forced dependence on the union should be no more tolerable than any other form of dependence.

It seems only reasonable to consider the possibility that Americans do not "appreciate" unions because the demands of union identification conflict with other values, as Karson suggests. Yet the psychological literature contains many attempts to justify modern unionism on the grounds of the "satisfaction of human needs." What is really happening is that the theories and fragmentary data of an emerging science are used to cloak political-economic predilections. More important, the effect of such activity is not limited to *academe*. Such "findings" can then be "applied." One paper describes the techniques (including those involving manipulation of employees' motivation) of union organizers. The situation began with the activities of a female organizer. Her technique was:

"... to listen patiently to the complaints of individual workers and seize on the details of their experience in the plant in order to build up their sense of dissatisfaction, emphasizing the justice of their claims. Others in their own work group shared the grievance, she pointed out, whereas in shops organized by ILGWU workers were spared these unhappy grievances. Thus, by emphasizing wages, seniority, treatment by supervisors, or grievance procedure as seemed best suited to the complaints she heard, *she sought ways to transform individual dissatisfaction into a collective condition of unrest* and to persuade her listeners that their grievances could not have arisen or would not have been permitted to continue in a unionized shop." (Italics added)¹⁷

There was an NLRB election, contested by the company. Many workers who had signed up were restless. The organizer (a man had now taken over) helped the people to "understand" the company's delaying tactics. Part of his problem was the personal popularity of the head of the company.

"Frank's task was to break down this identification of the workers with their employer and to foster in its place an in-group, out-group relationship between union members and employer. This developed very slowly . . . Frank constantly used the argument that the company would rather deal with weak individual workers than with a strong international union. His efforts bore fruit as the workers' identification with the employer slowly diminished, and increased loyalty to the union developed in its place." (*ibid.*, pp. 92-3)

Part of the fruit of this activity was a 16-week strike. And the observers summarize the organizer's technique:

¹⁷Karsh, B., Seidman, J. & Lilienthal, D. M.: "The Union Organizer and His Tactics." In Barbash, J. (ed.) *Unions and Union Leadership: Their Human Meaning*. N. Y.: Harper & Bros., 1959, pp. 87-88.

“Clearly a condition of unrest, a widespread feeling of dissatisfaction, is essential if workers are to be successful in forming a union. The professional organizer does not create this condition; he probes for it, brings it to the surface, emphasizes it, and seeks to place the responsibility for it with the employer and to convince the worker that his sense of grievance could be removed by unionization . . . *He serves as much more than a catalytic agent, however, for he brings with him his experiences and the economic and political resources of a national organization, and he determines tactics and objectives until the local group has gained enough experience to share in directing its affairs.*” (*ibid.*, p. 94, italics added)

The techniques used to motivate people to join unions suggest an awareness of the resistance to this form of organization. They also supply some cogent reasons for the emphasis on compulsory unionism. Most significant, the emphasis on the psychological functions and satisfactions of unionism is tacit acknowledgment that the economic arguments are inadequate.

Effects of Non-Wage Demands on Management

Many people still think of collective bargaining in terms of wages and hours. In an introduction to a 1942 book on trade unionism, Russell Davenport referred to wage-hour bargaining as the first, or “primitive,” phase in collective bargaining. He indicated that “more advanced” bargaining would cover the general areas with which we are concerned in this section.¹⁸ These newer areas of collective bargaining are closely associated with the growth of some of the doubts about “too much” union power. On the other hand, union leaders often use them to rally public opinion on the basis that they are “non-economic” (*i.e.*, non-cost) matters. Of course, nothing that has that much influence on the terms of employment can be considered apart from labor costs. We refer to these demands, therefore, as “non-wage” demands. They deal, in general, with the types of decisions about working conditions which used to be determined exclusively by management.

One of the sources of strength of a profit-motivated economy is the fact that, in order to meet competition and make a profit, entrepreneurs must be constantly alert to opportunities to use resources more efficiently. If management is not free to respond to opportunities and to make more

¹⁸Introduction to Golden, Clinton S. & Ruttenberg, Harold J.: *The Dynamics of Industrial Democracy*. N. Y.: Harper & Bros., 1942, pp. x-xi.

efficient use of resources, economic growth is threatened. One major problem confronting the economy is the extent to which collective bargaining has encroached on this area of decision-making, usually in the name of "labor's rights." The union can be very specific as to who has the "right" to what job (and at what pay) but it cannot guarantee that the job will continue to exist—or that there will be more jobs five or ten years from now for an expanding work force. Only successful (that is, profitable) businesses can provide such assurances.

Public attention has only recently been attracted to the question of "management's right to manage," although the issue has developed over a period of time. One report of a 1945 National Labor-Management Conference indicates that labor representatives would not agree on the definition of *any* function of management because, at some future time, they might want to bring it into collective bargaining. Unions continually attempt in this way to re-define management's role and, as a consequence, they become involved in every aspect of hiring, firing and the setting of work rules.¹⁹

A number of people have commented on the fact that the coordinate use of the words "labor" and "management," as in the phrase labor-management relations, overlooks the fact that they are different kinds of organizations, with different functions and interests. When employees join a union, even on a voluntary basis, the union is established as an institution with its own objectives—which may not be completely identical with those of the individual employees. One recent commentator suggests that this diversity is least at the local level and greatest at the level of the national and international union.²⁰

Different aspects of the consequences of union-imposed rigidities on management are discussed in this section. The economic consequences of demands for "union security," or compulsory unionism, are dealt with in the next section. The division may seem arbitrary to some. To an extent it is. It seems to us, however, important to differentiate the way in which attempts to "protect the worker" restrict the economy from the way in which they restrict the rights of individual employees.

Seniority

"Seniority" seems a simple enough concept. To most people it implies giving preference to those with the longest period of service. It probably seems to many to be the least controversial of all union demands, having in it elements of "fairness" and "common sense." In practice, the

¹⁹Lindblom, Charles E.: *Unions and Capitalism*. New Haven: Yale University Press, 1949, pp. 156-158.

²⁰Teplow, L.: "Current Trends in Labor-Management Relations." *Symposium on Labor Relations Law*. Tulane University School of Law, 1961.

concept is anything but simple. To begin with, there is the problem of definition. What form of seniority is to be considered — seniority in the company, the plant, the department or, even, the union?

At first, “seniority” was applied to preference in cases of lay-offs and re-employment after lay-offs. Then the concept was extended to a variety of situations, including promotions and transfers. In these latter instances it seems most appropriately applied after ability and aptitude have been given first consideration. In much that has been written there is the implication that, “all other things being equal,” the senior employee gets preference. This may be hard to achieve in practice where it is impossible, or impracticable, to match skills precisely. Then the union often disrupts activity while it tries to make the case for the member with seniority.

The complexities involved in seniority demands can be further illustrated by the 1961 auto workers’ strike against General Motors. This strike came after the matter of wages and fringe benefits had been settled and involved local demands for the adjustment of work rules. In a news-story reporting the details, there were two dealing with seniority. One was fairly traditional—involving a demand for plant-wide seniority. The other was a suggestion that seniority be “reversed” because lay-off benefits have been increased. Workers with the most years of service should get “first chance” to be laid off. “Collecting unemployment benefits, some workers feel, would be better than working at somewhat higher weekly pay.”²¹ Nothing came of the demand but it did illustrate the many ways in which an idea can be modified.

From the point of view of the individual employee, also, seniority is not an unmixed boon. If a worker is discharged, he loses his seniority and must start at the bottom of the scale in another firm. This is obviously costly to him and, where he has a choice, mobility is often sacrificed for apparent security. It is costly also to the economy, which loses the advantage of a mobile work force that is responsive to the opportunities offered by new or growing industries. As seniority imposes more and more rigidity on workers and management, the ultimate desideratum becomes keeping the job in which one started. Some of the problems created by seniority, particularly those surrounding mobility, are becoming generally recognized. Insofar as suggested solutions involve either the federalization of private pensions or further restriction on transfers and contracting, their ultimate effect will be to aggravate, rather than ameliorate, the problem.

Grievance Machinery

Grievance machinery is often referred to in union-oriented writings as the “essence of the new industrial jurisprudence.” It is said to make

²¹“Little Things That Cause Big Strikes.” *U.S. News & World Report*, September 25, 1961, p. 106.

the worker independent of the "whims" of his supervisor and to introduce objectivity into the evaluation of his work. In practice, questions arise here, too. For example, the whim of the supervisor can be replaced by the whim of the union representative.

Rees has pointed out that the cost of grievance machinery to management is different from the cost of seniority in that, for the most part, it involves only time. However, he recognizes that it does impinge on managerial flexibility and discretion. With respect to the individual worker, he lists situations in which grievance machinery is "incomplete"—for the non-union employee; for the member of the union minority (racial or opposition); in cases where the union dismissed the grievance without going to management; where rules are arbitrarily enforced; where there is a log-rolling of grievances.²²

The grievance procedure is often said to provide for "continuous collective bargaining" and to be the "heart of the contract." Nevertheless, there is some question as to how closely grievances are related to contracts. The late Sumner Slichter and his associates reported great variations in what becomes a grievance. These variations may reflect such things as union election campaigns, new union leadership, a new grievance man, contract changes or an emphasis on enforcing one aspect of the contract. Although the figures on grievance rates from one situation to another are not strictly comparable because of the methods of recording, the conclusion of these observers was that the actual satisfaction of individual workers has relatively little to do with the grievance rate. "The chief determinants appear to be organizational and institutional conditions."²³ This means that time and money are spent not primarily to adjudicate employees' grievances but to establish the importance of the union in the employment situation.

Restrictive Work Practices

The definition of a restrictive work practice (more popularly known as "featherbedding") is largely a matter of intent. It is meant: (1) to make the employer pay for work not done; and (2) to "spread" the available work as a consequence. Restrictive work practices minimize the cost-cutting potential of productivity improvements by keeping the labor input (or, more accurately, the labor paid for) at an unnecessarily high level. By insisting on restrictive work practices, unions interfere with managerial decisions as to what is the optimum combination of capital and labor in any given situation.

²²Rees, Albert: "Some Non-Wage Aspects of Collective Bargaining." In Bradley, Philip D. (ed.) *The Public Stake in Union Power*, op. cit., pp. 131-133.

²³Slichter, Sumner H., Healy, James J. & Livernash, E. Robert: *The Impact of Collective Bargaining on Management*. Washington, D. C.: The Brookings Institution, 1960, p. 702.

The trend over more than two centuries has been toward more mechanization, greater efficiency *and* more and better-paying jobs. Union leaders do not want to reverse that trend. However, some of them do try to have progress on their own terms, as this excerpt from an AFL-CIO resolution on automation indicates:

“... The AFL-CIO welcomes technological progress as the basis for future advances in lifting the standard of life, increasing leisure and national strength. We insist, however, that such progress must be used for continuing improvements in working and living conditions and that the hard-won rights of working people be guarded during this period of technological transition. Equitable and orderly labor-management procedures must be worked out, through collective bargaining, to ease the potential disrupting effects of radical technological change on wage and salary earners . . .”²⁴

Phrases such as “equitable and orderly procedures” sound worthy of anyone’s consideration. In context they often mean limitation of the very flexibility on which progress—and jobs—depend. This does not mean that automation will not seriously affect individuals. It will, in spite of the most earnest attempts to minimize dislocations. Giving the union veto power over specific changes may slow the trend but it will not stop it—nor will it facilitate the necessary social and individual adjustments. In fact, interference with the economic dynamism may delay the adjustment of the economy (see p. 37).

It will be recalled that work rules loomed large in the events leading to the 1959 steel strike. After the strike was settled, the Secretary of Labor ordered a comprehensive study of collective bargaining in the basic steel industry. In the report submitted to the Labor Department, the question of the union’s concern about shrinking employment is described as “the heart” of the union’s interests. The remedies suggested by the steel workers’ union are not very different from those suggested by other unions—shorter hours, longer vacations, continuation of past crew sizes, increased pension, severance and unemployment benefits. The comment is made:

“To the extent that these objectives are achieved in a planned, orderly, bargained manner, they help serve the purpose of the union in regard to employment security. But each of them, once achieved, intensifies management’s efforts to reduce costs in order to remain competitive in the face of its present and future market position.”²⁵

The unions’ “iffy” attitude toward automation is related to their insistence on certain restrictive work practices. They ignore the fact that

²⁴AFL-CIO Resolution included in the statement of Andrew J. Biemiller to the Special Committee on Unemployment Problems of the U. S. Senate, October 1959, p. 17, Part 1 of the printed record.

²⁵Livernash, E. R.: *Collective Bargaining in the Basic Steel Industry*. U. S. Department of Labor, 1961, p. 26.

“spread the work” can kill the job and that new and more efficient techniques can save and even increase job opportunities. Jobs follow when profits are available or anticipated. This statement cannot be reversed. In pursuing profits, individuals make the investments that enable companies to make jobs and to bring about progress in living standards. When unions limit the opportunity to pursue and earn profits—no matter what rationale they use to convey their demands—they also limit job opportunities.

Prerogatives and Rights

An explanation is obviously needed for an apparent contradiction: union leaders who, on the one hand, make wage and other demands that may jeopardize hundreds of jobs and, on the other hand, bargain zealously to protect their jurisdiction over *this* job or their right to determine who shall hold it. The explanation, such as it is, is found in the matter of rights and prerogatives.

In much of the recent literature on labor-management problems, labor (*i.e.*, the unions) has “rights;” management, on the other hand, has “prerogatives.” Labor’s rights are constantly being broadened by reducing management’s prerogatives. If the choice of words is meant to make the comparison between recognized claims and special privileges, recent events make it seem that the special privileges belong to labor.

Much of the discussion has been focused on “job rights” as something analogous to property rights. A rather clear statement of the unions’ point of view starts from the proposition that, while the historical battle for political liberty freed property from the control of the state, this was of no benefit to persons without property. It continues:

“For them a new system of rights has been sought. One was to establish a structure of inalienable personal rights in jobs and rights to income. These would balance the rights of property. But this course proved difficult and the results were inadequate.

“The alternative course, a more fruitful program, has been to secure, through economic struggle and legislation, limitations upon the employer’s exercise of his managerial powers and to prescribe conditions for the use of property which would create security for workers, regularize the claims of classes of workers to employment, and provide employment opportunities for all. These claims have not become common-law rights; they are concessions and claims wrested through, and protected only by, economic and political power.”²⁶

“To prescribe conditions for the use of property” opens up a vista far different from that of “saving” or, even, “making” jobs. The unions’ invasion of the area of management’s so-called “prerogatives” becomes a

²⁶Barkin, Solomon: “Labor Unions and Workers’ Rights in Jobs.” In Kornhauser, A., Dubin, R., & Ross, A. M. (eds.) *Industrial Conflict*. N. Y.: McGraw-Hill Book Co., Inc., 1954, p. 121. (Prepared for the Society for the Psychological Study of Social Issues.)

technique for changing our basic economic system. No matter what the rationalization — “health and safety,” “fairness,” “democracy” — their cumulative effect represents a threat to our economic system.

Traditionally, American unions were said to be interested in “bread-and-butter” issues, in contrast to the labor movements of many European countries that early became involved in, or sponsored, political parties. The fact that there is no “labor party” or outright affiliation with a political party should not be confused with lack of either activity or influence in the determination of the background conditions under which economic activity is carried on.

Union Security and Its Consequences

Writing in his history of the New Deal, Arthur Schlesinger states that, where before 1934 the main cause of strikes had been the desire of already organized workers to raise wages, reduce hours or prevent wage cuts during the depression, now the right to organize “was itself becoming the crucial issue.”²⁷

Then came the increased demand for compulsory unionism. Union spokesmen still insist that American unions are “voluntary” organizations, in spite of a quarter-century of attempts to impose compulsory unionism. For example, Secretary of Labor Goldberg, writing as a union counsel:

“American unions are individual voluntary organizations. Neither the AFL nor the CIO dominated or controlled the autonomous unions which comprised them—nor does the new merged AFL-CIO. The key role of the labor movement is collective bargaining, and this is performed by the individual union, or sometimes its locals, but not by the AFL-CIO.”²⁸

This reasoning ignores completely the fact that the compulsion is directed against *individuals*, not unions. Unions, as organizations, have “union security” as a goal. The very phrase is an indication that the union, not the worker, is the beneficiary of compulsory unionism in any of its forms. To the extent that unions achieve this goal, their power rivals that of the state itself.

The unions’ argument for compulsory unionism is that it is “only democratic” for all those who benefit from a union’s activities to share

²⁷Schlesinger, Arthur M., Jr.: *The Coming of the New Deal*. Boston: Houghton Mifflin Co., 1959, p. 385.

²⁸Goldberg, *op. cit.*, p. 2.

its costs. This view ignores the individual's right to doubt that union activities benefit him. It is quite different from the view that in a free society individuals have a right (although not, of course, an unlimited right) to band together in voluntary groups to achieve common purposes. One observer questions whether the so-called "free rider" is "clamoring for the ride," and goes on to argue that no improvements of wages and other benefits accrue to workers from the union. Rather, collective bargaining is a device for tapping the sources from which all benefits are finally secured.²⁹

Another writer points out that the free rider argument is fundamentally unsound because people throughout our society benefit from the activities of organizations to which they make no financial contribution. He states further that the argument is deceptive because: (1) only a part of dues and assessments goes for negotiating contracts; (2) the real object is not to make people share the expense but to subject them to discipline; and (3) contracts become binding on all because of union privilege. The "non-union member is not a 'free rider;' he is a captive passenger."³⁰

The International Labour Office's mission reported, in 1960, that unions in the United States are opposed to any form of restriction on union security. They gathered that the union security arrangements are considered vital for the maintenance of a strong organization "insulated" against fluctuations in membership caused by changing economic conditions, rival unions, "interference" by the employer.³¹ An American observer comments quite candidly:

"If the 'free riders' could be forced to join and remain in the union, a constant source of irritation would be removed, the flow of funds into the union treasury safeguarded, and the time and energy of officers and active members freed for other tasks. In addition, the security clause served as the instrument of union discipline by compelling the discharge from his job of a worker who violated union rules and as a result lost his union membership."³²

This gets much closer to the crux of the matter. Under voluntary unionism, the "free rider" is allegedly resented by the members. Compulsory unionism changes the nature of the resentment—now the unwilling members resent the union. "Democracy" has been used as the rationale for imposing control and, not unimportantly, making it unnecessary to consider the minority.

²⁹Briefs, Goetz: *Unionism Reappraised: From Classical Unionism to Union Establishment*. Washington, D. C.: American Enterprise Association, 1960, pp. 35-36.

³⁰Richberg, *op. cit.*, pp. 120-121.

³¹International Labour Office: *Report of a Mission on The Trade Union Situation in the United States*. Geneva, 1960, p. 69.

³²Seidman, J.: "The Labor Union as an Organization." In Kornhauser, A. *et al.*, *op. cit.*, pp. 113-114.

Union Power and Its Abuse

Union leaders, certain of their power over their members, are not reluctant to exploit that power in every phase of national life. The activities range from the subtle to the crude; from the use of violence to speeches at stockholders' meetings; "political education" and other attempts to influence public opinion and policy on a vast range of issues. The arrogance of the undeniably corrupt before the McClellan Committee is matched by Carey's statement that: "I owe G. E. a strike" and Lewis' "decision" to restrict output in the coal mines. Whatever the form, a very small group wields a great deal of power. Although a multiplicity of power centers remains the hallmark of a competitive economy, there are those who see special reasons for union power.

Such special pleading accounts for attacks on the Taft-Hartley Law for its attempt to restore to employers the elementary right of free speech. The assumption is that, if the employer is allowed to state his case, he will inevitably "intimidate" potential union members. One might suggest that unions would not have to depend on restricting the employers' right to tell their story, or on compulsory membership, if they had a genuine and widespread appeal.

Another form of "unions are different" thinking is found in the report, from time to time, that unions have signed a "no raiding" pact. This is represented as an achievement. A similar pact between businessmen to eliminate competition would clearly be considered in restraint of trade.³³ What such an agreement between unions does is to make it impossible for the individual worker to choose the union which would best represent his interests.

The unions' desire for special treatment is also found in the situations that may be referred to as "mutual aid"—when unions help each other to bear the cost of strikes. According to Secretary Goldberg, one of the most elementary forms that the idea of a labor movement takes is:

"... the financial aid which unions will give to each other in periods of strife without expectation of repayment. No corporation executive would dream of making a financial gift to another corporation which is in trouble but it is the essence of trade-union morality that a request for assistance by a sister union in trouble is very difficult to reject."³⁴

The airlines, in 1958, formed a mutual aid pact of their own, providing that no company should profit from a strike against others. This was upheld by the C. A. B. but opposed by the Association of Machinists, the Air Line Pilots' Association and other unions involved. The

³³Richberg, *op. cit.*, p. 77.

³⁴Goldberg, *op. cit.*, p. 146.

railroads, in a variation of the attempt at mutual protection, have strike insurance, which the Long Island Railroad made use of in the 1960 strike. The Brotherhood of Railroad Trainmen sued, saying the plan "frustrates collective bargaining and prolongs the strike." If it is the "essence of morality" for one union to help another withstand a strike, why does it "frustrate collective bargaining" if the companies do likewise?

Sylvester Petro has written that the Taft-Hartley provisions represent, in the long run, society's acceptance of unions. In his view, union criticism of this legislation is a reflection of "traditional union reluctance to take a responsible position in society."³⁵ To some extent, of course, society has failed to demand union responsibility. This is seen in the reaction to union coercion.

To many people, "union abuses" mean lye thrown in faces, goods destroyed, money stolen from pension funds and other overt criminal acts. To a great extent it was such activities, rather than the revelation of power without responsibility, that attracted the public's attention during the McClellan hearings. Yet it is the unrestrained exercise of power that is the true union abuse. Outright criminal activities are the subject of community disapproval and community action. The expulsion of unions guilty of these practices from the national labor federation makes a good show of "cleaning house." The opportunity to disassociate these unions from the labor movement makes it easier to overlook the abuses inherent in the power of the "respectable" unions. Philip Bradley talks of "this kind of unionism"—objected to because of the criminal element and not because of the coercion of employers, workers and, inevitably, the public. "If it were Reuther, say, rather than the thug pictured by McClellan, who decided that what was good for the union was good for every worker, then most of those who become indignant at 'this kind of unionism' would go back to sleep."³⁶ That was the reaction of a great many people after the McClellan hearings vanished from the front pages of the country's newspapers.

The public's attention was focused on corruption. But what is the meaning of "corruption" in this context? Petro suggests one criterion: the use of union funds for purposes other than the immediate interests of the members who pay dues under compulsory unionism. Referring to the expenditure of \$5,000 of the Michigan Teamsters' dues to support a candidate in a Philadelphia election, he says that if the members had not

³⁵Petro, S.: *The Labor Policy of the Free Society*. N. Y.: The Ronald Press Co., 1957, pp. 186-187.

³⁶Bradley, Philip D.: "The Freedom of the Individual Under Collectivized Labor Arrangements." In Bradley, Philip D. (ed.), *op. cit.*, p. 169.

known, or expected, their dues were to be used for a purpose so unrelated to their own lives, then it was a misuse of those funds. And because they could not resign from the union without losing their jobs—as was actually the case—“then the corruption was unlimited.”³⁷ From there he goes on to an analysis of the UAW’s use of auto workers’ dues to attempt to ruin the Kohler Company. Again, this was neither in the members’ expectation, nor could they resign in protest.

Bradley’s criterion of corruption is that, whenever a union sets aside an amount greater than what the individual would willingly pay for the purpose, “it is behaving in essentially the same manner as the thug union. Both unions force the individual to take something that is worthless or worth less to him than the amount he pays for it.” (p. 173)

Compulsory membership is the essence of the union’s power to coerce. Union coercion, certainly on the part of the “respectable” unions, is not essentially physical, although “roughing up” by pickets is not limited to the “thug” unions. The essence of union coercion is fear—on the individual worker’s part, fear of losing his job and of social ostracism; on the employer’s part, fear of severe loss.

The strike is the most obvious expression of union coercion. Strikes and picketing are nonetheless defended as attempts to “establish” collective bargaining. Barbash lists the strike, the boycott and the picket line as the union’s weapons to balance the employer’s right to say “no” to union demands. However, in the same book, he describes the realities of the situation: that many employers no longer make any attempt to continue operations during a strike; that they “trade” limited operations for a “token” (and peaceful) picket line.³⁸ The employer has the right to say “no” to the union’s demands but, if he does, the union’s refusal to accept the situation puts him out of business, at least temporarily. When the employer says “no” to the union, he may be strengthening it; when the union says “no” to the employer, it imperils his future and, therefore, the jobs of those dependent on the firm’s success.

Roscoe Pound, former Dean of the Harvard Law School, has stated that the labor leader and the labor union “now stand where the king and government and land owner and charity and husband and father stood at common law.”³⁹ He compares the general loss of special privilege by these other groups with:

“. . . the substantially general privileges and immunities of labor unions and their members and officials to commit wrongs to person and property,

³⁷Petro, S.: *Power Unlimited—The Corruption of Union Leadership*. N. Y.: The Ronald Press Co., 1959, p. 149.

³⁸Barbash, J.: *The Practice of Unionism*. N. Y.: Harper & Bros., 1956, p. 227.

³⁹Pound, Roscoe: *Legal Immunities of Labor Unions*. Washington, D. C.: American Enterprise Association, 1957, p. 21.

to interfere with the use of highways, to break contracts, to deprive individuals of the means of earning a livelihood, to control the activities of the individual workers and their local organizations by national organizations centrally and arbitrarily administered beyond the reach of state laws, and to misuse trust funds—things which no one else can do with impunity.”

Dean Pound believes that the immunities of labor unions rest upon established features of American labor law, including the substantial elimination of the assured method of enforcing the law (injunction) applicable to every one else. He also makes the important point that the National Labor Relations Board, unlike other administrative agencies, is not concerned with protecting the public but protects the labor organizations and their leaders.

The picture emerges of present-day unions as permanent and self-perpetuating bodies, to a large degree independent of both their members' approval and society's legal standards; acting as a “governing body” over jobs; making decisions as to who shall hold jobs and administering “codes of industrial jurisprudence.” The ability to exert so much power is inextricably bound up with compulsory unionism. Unions are the only non-governmental associations that demand compulsory membership. And they do so with the tacit approval of society and under the protection of law. These “private governments” are constantly trying to broaden their influence over public policy.

Unions in Politics

As early as 1918, the American Federation of Labor was advocating government ownership of public utilities, government housing and public employment agencies.⁴⁰ In other words, even the “conservative” group in the labor movement has tried consistently to get legislative support for some of its programs. Since the New Deal, of course, the attempt to influence both the legislative and executive branches has become a major activity of labor unions.

The techniques they use are varied. However, there are certain identifiable *motifs* running through much of the recent political activity. One is to cloak activities in a general “do-goodism,” apparently unrelated to the immediate interests of their members or of the union itself. Thus, union spokesman after union spokesman puts himself on the record in favor of all forms of “social” legislation, no matter who the beneficiaries are to be. A closely related technique is to make sweeping statements about the unions' contribution to long-established programs of general

⁴⁰Lorwin, Lewis L.: *The American Federation of Labor*. Washington, D. C.: The Brookings Institution, 1933, pp. 174-175.

public interest. Thus, the Director of the AFL-CIO Department of Education, writing a book review in a union newspaper:

“When 130 years ago, American trade unionists pressed for the establishment of free public schools, they stressed the importance of education for effective citizenship.”⁴¹

The union member may get the impression that unions of the 1830’s were instrumental in establishing public schools in this country. Left out are two rather important facts: (1) tax-supported education pre-dates the American Revolution; (2) unions may have approved the idea of extending public education in the 1830’s but they had very little influence. The provision for tax-supported education in the state constitutions (passed during the first quarter of the nineteenth century) and the compulsory education acts of the second half of the century were not a reflection of union power. However, if one accepts the union statement, they have established their influence in this particular area of public policy.

Another theme, usually used in relation to matters that are of direct and immediate interest to unions, is summed up by the phrase: “We only do it because we have to.” Thus, the United States Department of Labor reports to the American people that:

“As union interests have broadened and as government has, of *necessity*, had to take a more active part in regulating the economic life of the people, so too have the *unions found it necessary* to spread outside of the purely economic field of wages and working conditions into the field of politics.” (Italics added)⁴²

Spengler has analyzed power blocs in the United States in relation to economic decisions.⁴³ Of the potential blocs—organized agriculture, organized business and organized labor—he finds that only labor has the potential to become a full-bodied politico-economic bloc. Since the AFL-CIO merger, there has been an acceleration of political activity through the AFL-CIO Committee on Political Education (COPE). Although many see this as one more step in the consolidation of power, the official labor explanation is again that of “necessity.” George Meany’s foreword to COPE’s political manual includes this statement:

“The gains labor has made at the collective bargaining table are threatened in the legislative halls of Congress and the State Legislatures. To meet that challenge, effective political activity has of necessity become a vital part of effective trade unionism.”⁴⁴

⁴¹Rogin, Lawrence in *UAW Solidarity*, September 1961, p. 2.

⁴²U. S. Department of Labor: *The American Workers' Fact Book*. Washington, D. C., 1960, p. 274.

⁴³Spengler, J. J.: “The Power Blocs and the Formation and Content of Economic Decisions.” *American Economic Review: Proceedings and Supplement*, May 1950, vol. 40, p. 413 ff.

⁴⁴Meany, G. in *How to Win: A Handbook for Political Education*. AFL-CIO Committee on Political Education, undated, p. v.

What is the significance of all this activity? The sympathetic observer sees it as an accretion of power to the underprivileged and ignores the fact that it is the union, not the member, to whom the power accrues. In fact, the members' rights and freedoms may be the price paid for "union strength." Archibald Cox, for example, has written that the increased freedom gained from the power of organization "more than compensates" for "the occasional loss" of liberty in belonging to a union. At their best, he argues, unions bring to politics a "strain of idealism reaching far beyond their own parochial interests, thus furnishing channels of expression for a constructive element of our national life." There is no countervailing description of what union politics "at their worst" do. He also considered the question of the union shop and the implications of support of policies which the member does not accept. He concluded:

"Enforcement of the contract would involve no violation of the First Amendment. The forced payment of dues does not curtail freedom of speech or association. It impairs no political rights. Since the only compulsion is to pay the regular dues—not an earmarked political assessment—the member does not even suffer the affront of being forced to pay money for an identifiable cause which he is unwilling to support . . . *The only serious constitutional argument, therefore, would seem to be that the statute plus the union-shop agreement takes the member's property without due process of law.*" (Italics added)⁴⁵

Other students of the situation are less charitable than the Solicitor-General. Spengler, for example, saw the outcome of tendencies under way in 1950 as a society of "bilateral monopolies exploited by labor" that might require the employer to act as collection agent for the union and take from his customers the maximum they will pay for union members' labor embodied in the product. Thus, the allocative role of prices will be severely limited; union power will be widened; private capital formation will be checked; inflation will diminish the real value of fixed claims.

Goetz Briefs foresees the possibility of an economic system in which labor unions, rather than "capital," organize, control and run economic life. Professor Briefs suggests that, with free enterprise gone, unions would have won their battle but the workingmen and women might discover that they had lost the war.⁴⁶

Means and Ends

In this section we have been concerned with the way in which the growth of union power has meant the loss of much individual freedom and the imposition of a rigidity on the economy that can impede, or halt, economic growth. The "bread-and-butter" route of American unions

⁴⁵Cox, *op. cit.*, p. 109.

⁴⁶Briefs, *op. cit.*, p. 7.

could ultimately lead to the same type of secure, socialistic poverty that has been associated with "political" unionism. The worker-controlled economy, desired by earlier avowed radicals in the labor movement, may result gradually from the unwillingness of people to face the implications of modern unionism.

Few Americans—union members or not—want to see the end of the economic system that has brought us this far. They accept unionism because they have been told that unions, not an economic system, are responsible for higher real earnings. They give power to unions, or at least do not protest its assumption by unions, because they have been told that special privilege is necessary if these organizations are to be able to accomplish their economic mission.

For some people, the freedom of union members, the rights of owners and managements, the equal enforcement of laws, become abstract principles that can be shelved temporarily to "promote the well-being of working people." We hold no brief for such an "end justifies the means" philosophy under any circumstances. It is particularly important in this instance to understand what is at stake because the ends have not been achieved. We turn now to a consideration of the wage and employment effects of unions.

Unions and Economic Well-Being

Even if one rejects the idea that the ends could, under any circumstances, justify the means, it is still important to find out whether the ends alleged to result from union power are actually achieved. This task requires some definition of what constitutes the economic well-being of a worker. There are probably as many answers as there are individuals. There seems, however, to be a consensus—in economic, political and popular discussion—that these elements are involved: having a job; expecting to continue to have a job for as long as one wants (and is able) to work; a satisfactory present standard of living; expectation of an improved standard of living.

Of the four elements, two involve the present; two the future. “Having a job” can be measured by reasonably objective criteria. A “satisfactory standard of living,” on the other hand, is necessarily defined subjectively and it has been characteristic of our economy that when an individual achieves one goal he begins to reach for a higher one. Economic well-being is, then, a matter of employment and real wages. Although the bases for judging achievement of these goals are different, jobs and real wages are closely related.

The individual wants a job and “good” pay. Given the choice between working at his present (or even a lower) wage and becoming unemployed, he is likely to choose to remain employed. His individual decision depends on the possibilities of employment elsewhere at his present (or a higher) rate and on his reasons for working. The housewife, who seeks part-time employment, may feel that unless she earns a given amount above the additional expenses incurred by her absence from home, she is as well off without a job. The head of the family, on the other hand, may be primarily concerned with maintaining at least their present standard of living and will rarely give up one job voluntarily unless he is reasonably sure he will get another.

Wages and employment are also intimately related from the employer's point of view. To him, wages are costs. If costs per unit of production go up, he is likely to do what any consumer does in a comparable situation—try to get along with less or use a less costly substitute. It is, of course, in society's interest that he should do so. Failure to use the most economical of available methods of production is plain waste—from anybody's point of view.

In general, what labor unions have done is to limit the individual worker's range of decisions as to the wages at which he will work. As a consequence, employers' costs are affected. This is then reflected in the amount produced, the price level—or both—and affects the economy as a whole. What follows is an analysis of how this comes about. For the purpose of this analysis, we are addressing ourselves to three major questions:

1. Do unions influence employment levels?
2. Do unions influence real wages and the size of the economic pie?
3. Do unions influence money wages and the distribution of the economic pie?

In recent years, it has been the rate of unemployment, even in periods of high economic activity, that has become a major concern. For that reason, we turn first to the impact of unions on employment.

Do Unions Influence Employment Levels?

Since the end of World War II, almost every household in the United States has begun to do for itself a variety of things for which it previously employed others. "Do-it-yourself" has spread to tasks ranging from hair-dressing to housepainting. Appliances and products have been developed to allow the amateur to perform these tasks successfully. Most households originally became interested for an economic reason—there were not enough people available to do these jobs at wages families were willing to pay. It is not far-fetched to say that many American households have "automated" in response to high labor costs. This analogy, undoubtedly oversimplified, serves to identify the effect on employment of wage rates that induce the employer to use a substitute for labor. A variety of non-economic considerations sometimes makes household help "worth" the higher price. In business and industry, however, the economic considerations dominate.

When we discuss the relationship between union power and employment it is important to recognize that two sets of influences are in operation: (1) the growth of union power affects employment; and (2) employment trends have affected union growth. In the latter connection, we have already indicated that recent employment trends appear to be

related to the slowing down of union growth. The data in Charts I and II on pages 38 and 39 relate to shifts in employment between 1947 and 1961.

The normal course of economic growth has resulted in a shift in demand for labor as between occupational groups and from one type of industry to another. Chart I shows the change in percentages in employment in major sectors of the private, non-agricultural economy between 1947 and 1961. Chart II shows the change in employment over the same period for major occupational groups.

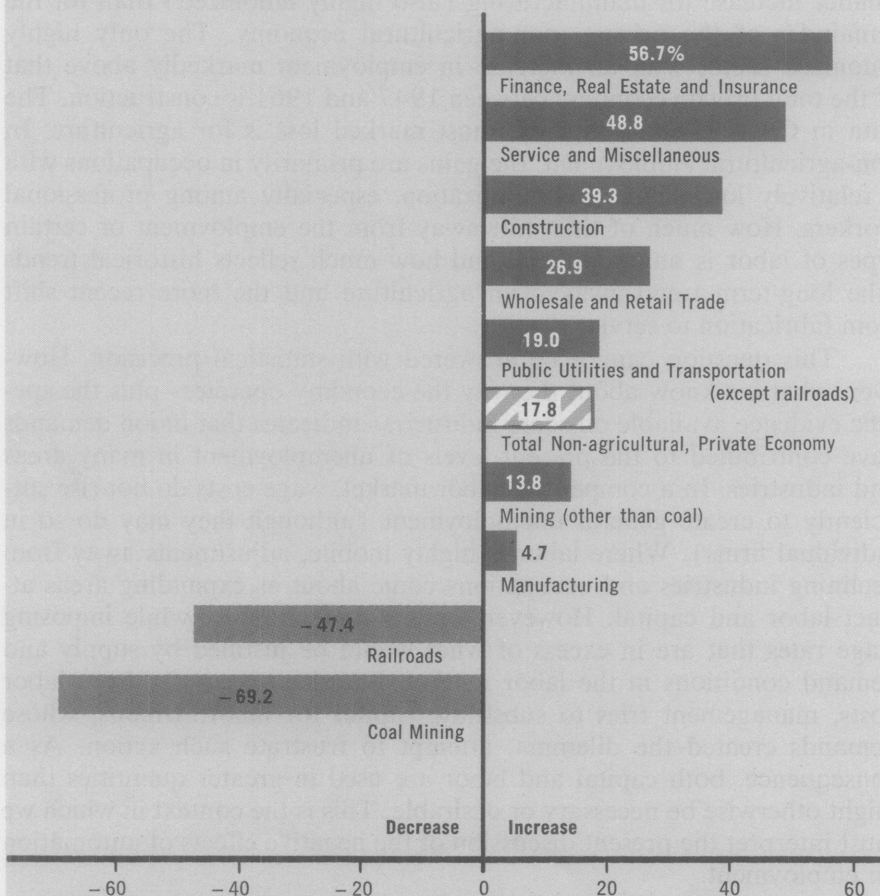
The data on industries (Chart I) show the loss in employment in two highly unionized sectors (coal mining and railroads) and a much smaller increase for manufacturing (also highly unionized) than for the remainder of the private, non-agricultural economy. The only highly unionized sector with an increase in employment markedly above that of the total private economy between 1947 and 1961 is construction. The data in Chart II show that the most marked loss is for agriculture. In non-agricultural employment, the gains are primarily in occupations with a relatively low degree of unionization, especially among professional workers. How much of this shift away from the employment of certain types of labor is union-induced and how much reflects historical trends (the long-term trend away from agriculture and the more recent shift from fabrication to service)?

This question cannot be answered with statistical precision. However, what we know about the way the economy operates—plus the specific evidence available on some industries—indicates that union demands have contributed to the present levels of unemployment in many areas and industries. In a competitive labor market, wage costs do not rise sufficiently to create general unemployment (although they may do so in individual firms). Where labor is highly mobile, adjustments away from declining industries and occupations come about as expanding areas attract labor and capital. However, unions limit mobility while imposing wage rates that are in excess of what would be justified by supply and demand conditions in the labor market. Faced by pressures from labor costs, management tries to substitute capital for labor. Unions, whose demands created the dilemma, attempt to frustrate such action. As a consequence, both capital and labor are used in greater quantities than might otherwise be necessary or desirable. This is the context in which we must interpret the present discussion of the negative effects of automation on employment.

Historically, productivity increases due to mechanization have been accompanied by more jobs and higher standards of living. When technological progress and the accumulation of capital make it possible to introduce new methods of production, individuals, firms and, even, whole in-

CHART I

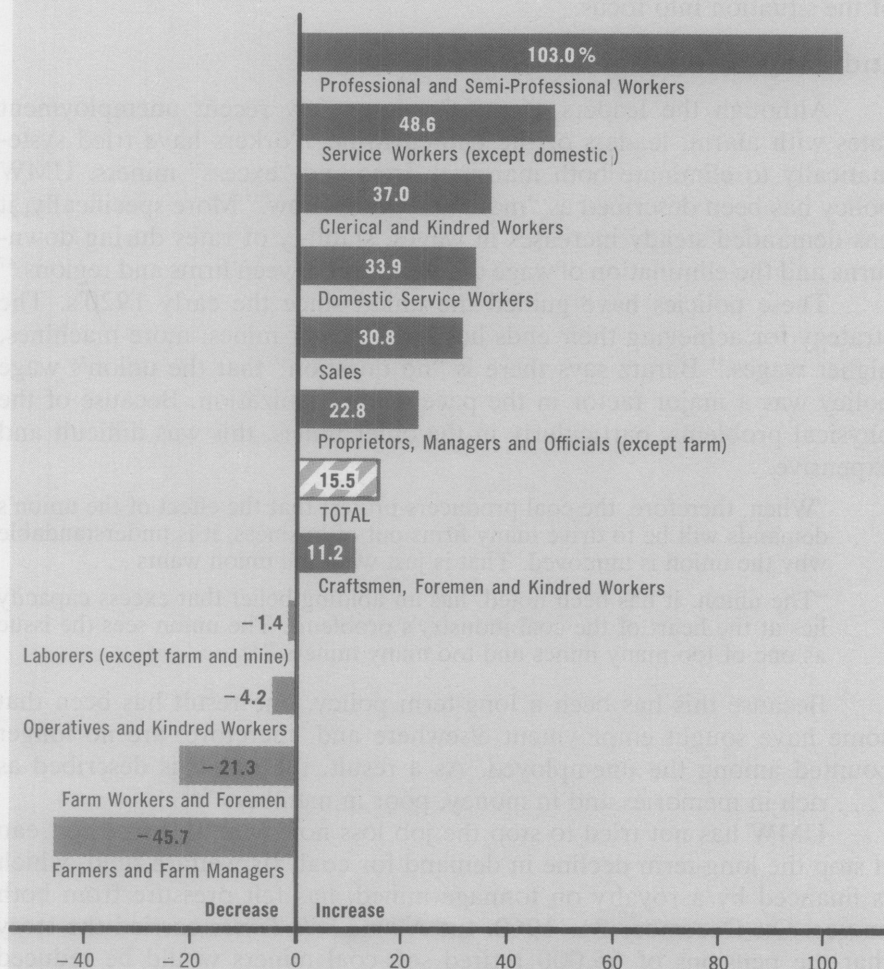
Employment Changes in Non-agricultural Establishments, Private Economy, 1947-1961



Source: U.S. Bureau of Labor Statistics

CHART II

Employment Changes by Occupation, 1947-1961



Based on U.S. Department of Commerce and U.S. Bureau of Labor Statistics Data.

dustries, have to make adjustments. But there is, economically speaking, some place for them to go. The economy is buoyant. This is different from the situation in which capital is substituted for labor as a defense against high wage costs. Then the purpose is to cut costs by using a smaller amount of labor and, therefore, the result is fewer jobs. The unions, in trying to limit this action, make demands that result in further cost increases. There is no "pure case" to illustrate the dynamics of this sequence. However, the experiences of several unions and several industries bring different aspects of the situation into focus.

Industry Examples

Although the leaders of most unions view recent unemployment rates with alarm, leaders of the United Mine Workers have tried systematically to eliminate both marginal firms and "excess" miners. UMW policy has been described as "more and more—now." More specifically, it has demanded steady increases in wages, stability of rates during downturns and the elimination of wage differentials between firms and regions.⁴⁷

These policies have guided the union since the early 1920's. The strategy for achieving their ends has been "fewer mines, more machines, higher wages." Baratz says there is "no question" that the union's wage policy was a major factor in the pace of mechanization. Because of the physical problems, particularly in the older mines, this was difficult and expensive.

"When, therefore, the coal producers protest that the effect of the union's demands will be to drive many firms out of business, it is understandable why the union is unmoved. That is just what the union wants . . .

"The union, it has been noted, has an abiding belief that excess capacity lies at the heart of the coal industry's problems. The union sees the issue as one of too many mines and too many miners."⁴⁸

Because this has been a long-term policy, one result has been that some have sought employment elsewhere and, therefore, are no longer counted among the unemployed. As a result, the union is described as ". . . rich in memories and in money, poor in members."⁴⁹

UMW has not tried to stop the job loss nor, with all its power, can it stop the long-term decline in demand for coal. Its welfare fund, which is financed by a royalty on tonnage mined, has felt pressure from both causes. On December 31, 1960, the *New York Times* carried the story that the pensions of 65,000 retired soft-coal miners would be reduced

⁴⁷Baratz, M. S.: *The Union and the Coal Industry*. New Haven: Yale University Press, 1955, p. 51.

⁴⁸*Ibid.*, p. 70.

⁴⁹Raskin, A. H.: "The Squeeze on the Unions." *The Atlantic Monthly*, April 1961, p. 55.

from \$100 to \$75 a month because of the "pinch." The model welfare fund, created in response to union demands, could no longer cope with the industry's problems, which its demands had also helped to create.

Thus the plight of the miners in West Virginia and western Pennsylvania became evidence for the need for federal aid to "depressed areas." Similarly, unemployment among the textile workers in New England provided such "evidence." The Textile Workers Union of America has not been as successful as UMW in organizing the entire industry or in eliminating regional pay differentials. There has been a long-term trend for mills to move away from New England to areas where wage rates were more competitive. Textile-mill employment in New England has been declining as a consequence of the moves and as foreign competition has become more acute for this industry.

Early in 1961, one textile industry spokesman testified that the United States industry's technological advantage was declining; another pointed out that New England mills were being closed, not relocated.⁵⁰ What were the union's suggestions in face of the situation in the industry and the fact that wages in competing nations range from one-third to one-thirtieth of those in the U.S. textile industry? Among many, most of them directed toward government intervention, is one for the establishment of a 35-hour week with no reduction in weekly pay. In other words, a further increase in wage costs.⁵¹

The idea that shorter work weeks (with no decrease in pay) will solve the problem of unemployment is not new. One of its foremost exponents has been Walter Reuther of the United Automobile Workers. The matter of jobs "lost to automation" loomed large in the 1961 negotiations with the automobile companies. Although UAW has been pressing for (and receiving) "security" demands since the end of World War II, Reuther told the members in a prenegotiation message that ". . . rarely, if ever, since the time of the first industrial revolution, have workers been as oppressed and haunted by insecurity as American and Canadian hourly wage workers are today."⁵²

Unemployment, particularly in Michigan, was a serious problem as negotiations began. At the same time, the average weekly and hourly earnings (\$113.24 and \$2.81 respectively) were at record highs for the

⁵⁰Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce of the United States Senate (87th Congress, First Session) on *A Study of the Textile Industry of the United States*. February 6 and 7, 1961, pp. 61, 65-67 and 341 of printed hearings. Spokesmen were Seabury Stanton, chairman, Northern Textile Association, and David Curtis, president, Rhode Island Textile Association.

⁵¹Statement of Solomon Barkin, Textile Workers Union of America, *ibid.*, p. 288.

⁵²Reuther, W.: "Problems That Must Be Faced." *UAW Solidarity*, Special Supplement, Eastern Edition, April 1961, p. S-1.

industry.⁵³ Does this picture give credence to Reuther's claim that the companies were "making labor bear the cost of progress?"

Just as West Virginia and New England have become associated with unemployment in coal mining and textiles respectively, much of the unemployment in Michigan is associated with the transportation equipment industry. A recent study of the 1947-57 period related this to an "unusually high elasticity" in that industry for the substitution of capital for labor. In other words, increases in labor costs have here, too, been the cause of automation. Michigan has been particularly susceptible to this phenomenon because approximately 40 per cent of manufacturing labor in that state is employed in the transportation equipment industry.⁵⁴

Unlike the situation in coal, there seems to be no decline in the overall demand for automobiles. However, the United States automobile manufacturers were confronted by competition from abroad during the late 1950's. Their competitors were using new, highly efficient plants and producing economical models which attracted American buyers. In view of this and increased labor costs, the introduction of new methods of production by the United States companies was a logical attempt to preserve markets. The union's reaction, as demonstrated in the 1961 negotiations, was two-fold. UAW was, for all practical purposes, telling the companies: (1) "You may resort to automation to avoid higher wage costs but you will have to 'make jobs' by shortening hours without lowering wages." (2) The cost of this "security" must come from profits (not from potential price increases) or from the taxpayer through government intervention.

Although "job security" was the more highly publicized demand, and UAW promised to be "flexible" in seeking solutions, the union was adamant about the continuation of the cost-of-living and annual improvement wage formulae. The trend of the settlements, as reported by the union as well as the general press, suggests the possibility of further increases in wage costs. Certainly many of the items agreed on with respect to fringe benefits will add further rigidity to wage costs. Although the union did not achieve its most highly publicized demand—a "salary" for all workers—it did introduce the penalty (of from 50 to 65% of the hourly wage) for shorter work weeks. By February of 1962, the UAW was complaining that General Motors was scheduling "excessive" overtime—while 25,000 were off the job. This reminded one commentator of a private statement by an auto maker at the time of the contract signing to the effect

⁵³Automobile Manufacturers Association: *Automobile Facts and Figures*, 1961 edition, from table on p. 67.

⁵⁴Sobotka, Stephen P.: "Michigan's Employment Problem: The Substitution Against Labor." *Journal of Business*. University of Chicago Graduate School of Business, April 1961, p. 119 ff.

that the UAW demand would benefit those on the job but hurt those laid off. He predicted: "If we hire a worker for a few weeks, giving him work he wouldn't get otherwise, we now assume the responsibility for him for nearly a year."⁵⁵

To some extent, the recent trend in the automobile industry is reminiscent of the situation in coal mining. Wage rates and productivity have increased—with a sharp decline in employment. UMW leadership, however, frankly prefers this situation. UAW leadership, on the other hand, professes great concern about "human problems" at the same time that it offers "solutions" which have a high potential for further stimulating the process that leads to unemployment. Some of these suggestions undoubtedly alleviate the problems of specific individuals. However, they cannot preserve (or "make") jobs indefinitely. In creating a situation where people are paid for work not done, they are behaving similarly to the unions whose members work on the railroads.

Railroading is the industry usually cited when problems of restrictive work practices ("featherbedding") are discussed. It is also an industry which has had difficulty in maintaining its markets for both passengers and freight because of the competition from other forms of transportation. A recent study of manpower utilization in the industry presents a now-familiar story: wages and fringes up and employment down from the late 1940's to the late 1950's. The author reports that the work rules have "undoubtedly retarded" the downward trend of employment (particularly for the train and engine service jobs). However:

"If the principal measure of effectiveness of make-work rules was what happened to employment, one would be constrained to conclude that the railroad working rules were virtually ineffective."⁵⁶

Nevertheless, a recent news-making event in railroad labor-management relations was the agreement between the Southern Pacific Railroad and the Order of Railroad Telegraphers which provides permanent work (or wages) for 946 men. According to the news reports, even if the work is not needed the company must pay for the services of up to 1,000 men.⁵⁷ Once again, the individuals involved may, for the time being, be better off. However, if the company cannot meet this cost for long, these jobs—as well as those of all the other employees—are eventually jeopardized. The first reactions of the unions to the report of the President's Railroad

⁵⁵"UAW Says 'Excessive' Overtime at GM Keeps 25,000 Workers Idle." *Wall Street Journal*, February 7, 1962.

⁵⁶Horowitz, M. A.: *Manpower Utilization in the Railroad Industry: An Analysis of Working Rules and Practices*. Boston: Bureau of Business and Economic Research, Northeastern University, 1960, p. 61.

⁵⁷"Rail Union Pact Grants Lifetime Jobs." *N. Y. Herald Tribune*, October 31, 1961.

Commission suggest that they will not readily abandon their non-economic and antiquated work rules.

An industry-by-industry examination leads to the conclusion that union-imposed rigidities have a generally harmful effect on employment which is separate from (in the sense of cause and effect) the historical trends in the economy. In fact, in some cases, they may make for a prolongation and an intensification of a situation which would otherwise have been resolved through the normal action of market forces.

Even where unions succeed in having people paid for work not done in order to "save" jobs, they restrict economic growth because these people are not contributing to production. Some of the capital used to counteract the effects of increased labor costs might also be used more productively elsewhere. In view of this, how have the unions been able to evade responsibility for the employment consequences of their bargains? There are several explanations, all having to do with more or less familiar situations.

The Response to Unemployment

First, although a strong union can raise its wage rates far above those prevailing elsewhere, that increase defines the goals for other wage agreements. This also applies to increases in fringe benefits. In this way, the "key bargains" have an effect far beyond their own industries (see p. 51). Consequently, it is not only highly unionized industries that are confronted by demands for wage increases beyond what is justified by market conditions. A strong union, however, can frustrate attempts to cut costs by demanding "job security" arrangements, such as those discussed above. The fact that this power is not complete, that not all demands are granted, does not detract from the fact that this is the way in which unions approach the problem. UAW, for example, did not achieve its demand for salaries for all automobile company employees. However, the penalty for a short work week may turn out to have been the first step in this direction. When unemployment occurs in a strongly unionized industry, as among the auto workers, the union responds with proposals that sound as though they are directed to the problem, although, in fact, they may only serve to aggravate it. If unemployment results in industries with a low rate of unionization, it is visited on non-union members and is apparently unrelated to union policies.

A second form of explanation is found in the fact that it takes time for the unemployment reaction to wage increases to become obvious. In a generally expansionary period, the first effect is to slow the rate of growth. In the period immediately after World War II, industries for whose products there was an accumulated demand (and those for which demand is

inelastic) were able to shift increased costs to prices. When customers began to resist further price rises, the pressure on profits forced tighter cost control. Thus, some of the present high wage costs have their origins in wage settlements of the early post-war years, which became the base on which further increases were added. There has been a similar experience in industries where wage rates were arbitrarily increased by federal minimum wage legislation. The Fair Labor Standards Act was amended in 1955 to raise the minimum wage to \$1.00 per hour. Studies were made of employment in two periods: 1956-57 and 1957-58. Industries were grouped on the basis of impact of the wage change—"high impact" indicates that the change was imposed on a low-wage industry. The data show a "considerable decline in employment" by the second period. Some of the plants classified as "high impact" during the first period were no longer in business. The conclusion is that: "Much of the decline in employment . . . can be attributed to the \$1.00 minimum wage."⁵⁸

Finally, the trend of public policy over the last quarter-century has also served to disguise the effect of union demands on employment. Maximum — or "full" — employment has become national policy. This means that inflation, rather than unemployment, may be the adjustment to increased wage costs (see pp. 54-56). Similarly, the shift of responsibility for the care of the unemployed to government has made it possible for unions further to ignore the relationship between their actions and the economic consequences. During the 'thirties, for example, the International Photo Engravers' Union's wage rates were maintained, even increased—although during the worst years of the period only 16 per cent of the members could find full-time employment. While the union maintained its wage rate, it also had an assessment (that went as high as 18–20 per cent of the employed members' pay at times) to maintain a benefit fund for the unemployed members.⁵⁹ Under more recent policies, unions do not accept this responsibility. So, when the miners' welfare fund cut the pensions of retired members, a reporter who specializes in labor matters stated:

"The unfilled needs of jobless mine families so far exceed the capacities of any private group that it would be foolhardy to seek to set up an emergency relief program under direct union auspices."⁶⁰

It is not surprising, therefore, that in the last few years there have

⁵⁸Wage and Hour and Public Contracts Division, U. S. Department of Labor: *Minimum Wages Under the Fair Labor Standards Act: Data Pertaining to an Appraisal of the \$1.00 Minimum Wage*. January 1960, p. 8.

⁵⁹Bradley, Philip D.: "Involuntary Participation in Unionism." In Chamberlin, E. H. *et al.* *Labor Unions and Public Policy*. Washington, D. C.: American Enterprise Association, 1958, pp. 76-78.

⁶⁰Raskin, *op. cit.*, p. 56.

been demands for the federal government to “do something” about re-training the unemployed — particularly those said to be displaced by automation. The unions have, in effect, been waging a two-pronged attack on the economic system, combining demands for “job security” at ever-increasing wage costs on the one hand with suggestions for government intervention on the other. In the 1961 automobile negotiations, UAW was quite forthright in attacking the profits of the automobile manufacturers, although the union did not attack the profit motive *per se*. This was done apparently without recognition of the fact that it is the profit motive that has been responsible for creating jobs and improving living standards.

Some of the suggestions of unions with respect to the possibility of raising wages and making jobs—at the expense of profits—are reminiscent of a comment of Hayek’s on an earlier union demand. Discussing a UAW demand that the “big three” cut automobile prices by \$100, he said:

“Nothing, indeed, brings home more vividly the dangers of the situation we have allowed to grow up over the last twenty-five years than the fact that it is necessary to examine such demands seriously and to explain at length why they must on no account be accepted if we are to preserve the fundamental character of our economy. I hope it is due to the fact that most people believe that these demands will not be pressed seriously and that, at least this time, they have been put forward as a bargaining manoeuvre, that they have not caused more concern . . . What will be tested when these demands are seriously put forward is the crucial issue of how far the organized groups of industrial workers are allowed to use the coercive power they have acquired to force on the rest of this country a change in the basic institutions on which our social and economic system rests.”⁶¹

It is important to note, too, that over a relatively short period of time many demands, that were originally considered “bargaining maneuvers” and not taken seriously, have become routine matters in collective bargaining.

Insofar as employment is a criterion of economic well-being, the weight of the evidence is that union demands are likely to be made at the cost of jobs of members, as well as of other members of the labor force. When unions turn their attention to “saving” jobs, it is usually by instituting make-work rules that are wasteful of resources and delay economic adjustments and economic growth.

⁶¹Hayek, F.: “Unions, Inflation, and Profits.” In Bradley, P. D. (ed.) *Union Power and the Public Interest*, *op. cit.*, pp. 60-61.

Unions, Real Wages and the Size of the Economic Pie

It is generally believed that it is necessary to *force* employers to grant wage increases. It is a further tenet of public opinion that unions are the effective agency (see p. 8 for typical public opinion poll results).

The trend of real wages has been upward during the course of our national history. This can be documented for as long as reliable statistics have been available. For the periods during which statistics are scattered or unreliable, observation provides the evidence. The forces motivating these increases have been economic and impersonal—growth and competition. And it is through improved *real wages* that we achieve the elements of economic well-being that we refer to as standards of living.

Statistics on real wages are available for the past century. Unions have had power for only a quarter of that time. This alone should be suggestive of the fact that increases in real wages for the economy as a whole are independent of bargaining power. Data from three studies, approaching the problem from different points of view, affirm this conclusion.

Productivity: The Key

One approach is found in the studies of real wages since 1860, conducted by the National Bureau of Economic Research. Between 1860 and 1890, real wages in manufacturing rose by 50 per cent; the increase was 60 per cent in building.⁶² The improvement was not spread evenly over the period but was concentrated in the last decade, which was a period of high capital investment and marked increases in productivity. Long states: "As concerns manufacturing wages, any position that unionization was a significant factor must be regarded as extremely tenuous." (p. 117)

A study of the growth of national unions in the second half of the nineteenth century reports that average real earnings rose by about 60 per cent between 1850 and 1900.⁶³ Ulman considers the question of the contribution of trade unions to this progress. Between 1870 and 1900 there was a slight decline (from 9.1 to 8.4 per cent) in the *proportion* of trade union members to all industrial wage earners (although the *number*

⁶²Long, Clarence D.: *Wages and Earnings in the United States, 1860-1890*. Princeton: Princeton University Press, 1960.

⁶³Ulman, Lloyd: *The Rise of the National Trade Union: The Development and Significance of Its Structure, Governing Institutions, and Economic Policies*. Cambridge, Mass.: Harvard University Press, 1955, pp. 17 and 19.

grew). Ulman's conclusion is that employees owed their gains in real wages to the economic forces of growth and a labor shortage, rather than to the activities of unions. This explains, in his judgment, the unions' failure to attract a greater proportion of the work force.

In the course of his analysis Ulman considers the possibility that unions force wage increases. It is his belief that wage increases that followed strikes during this period would have occurred anyhow because of the economic forces involved. He recognizes that unions claimed these increases as "victories" but ascribes this to the fact that the settlements were higher than the companies' first offers (just as they were lower than the unions' first demands). It is his conclusion that the developing economy helped to produce the rise of the national trade union.

The United States Department of Labor, in 1959, published a study of changes in living standards of the American worker since 1888. The improvements were, of course, dramatic. So dramatic, in fact, that the authors ask "what alchemy" is responsible. Their answer: "There is first of all the golden trace of productivity."⁶⁴ The bases for the productivity increase, beyond the application of power and the development of tools and techniques: (1) the experimental bent of the American businessman in a free enterprise economy; (2) a mobile and adaptable work force; (3) inventive genius; and (4) vast stores of accessible raw materials, supplemented by synthetics.

What of unions? They are included under the "social values" related to the golden trace of productivity:

"A population with advancing techniques and an expanding economy has a wider and more secure margin for such values as education, social reform, unions and other free associations, and the use of credit based upon the assurance of growth . . . Trade union growth was in part a response to expanding productivity and the workers' desire to share in it." (pp. 19-20)

The economic growth occurs independently. It is followed (or accompanied) by organization for the purpose of attempting to influence the distribution of the gain. However, as these studies show, the increase in economic well-being came *before* the development of voluntary unionism. The growth of unions during the depression years of the 1930's was, of course, fostered by legislation.

One reason unions *appear* to have an effect on real wages is that they do influence the way in which increases in real wages are distributed. If 7¢ is available, the members may prefer it in cash. However, they find that the leadership has bargained for part of this in fringe benefits. For institutional reasons, the "forcing" of the fringe benefits becomes more

⁶⁴U. S. Department of Labor: *How American Buying Habits Change*. Washington, D. C., 1959, p. 17.

important to the union leadership than the members' preference. In this way, the union becomes paternalistic.

Among trade unionists, the "paternalism" of employers has been an object of derogation and a subject for attack. Golden and Ruttenberg relate the incident of a plant manager who was "stunned" when the men were not satisfied with a raise granted voluntarily and struck for fifteen days in order to gain a 5-day paid vacation. According to them, the men felt they could "afford a few days' pay" for the "pleasure of putting the boss in his place."⁶⁵ However, union leaders see nothing wrong when they make decisions for the membership. What the member *gets* as a result of collective bargaining, may not be what he *wants*—because of the union. However, if what he gets is an increase in real income, the union influences the form of the increase. As Ulman puts it, because of economic growth, when trade unions "experimented with collective bargaining" the economy was "not found wanting."⁶⁶

We have no way of knowing what the course of growth of real wages since the mid-thirties would have been if there had been competitive labor markets. Under the conditions that did prevail, strong unions have probably preempted for their members more than they would otherwise have received but did so at the expense of other workers, as well as of other segments of the economy. The fact is that, in any long run, economic laws prevail and real wages rise within the general limits determined by productivity.

Can Unions Increase Productivity?

The trends of economic history notwithstanding, unions claim that their policies actually influence the size of the economic pie (the total of goods and services produced). In attempting to put this interpretation on the pressure their demands exert on the economy generally, they use two arguments that are of particular interest. The first is that it is only by maintaining or increasing the "purchasing power" of workers that the economy will find markets for its output. The second, recognizing the profit squeeze particularly, is that they "goad" management into greater efficiency and higher productivity. Each of these ideas is worth examining in relation to the goal of economic well-being.

While it is true that goods and services are produced for sale, the purchasing power theory, as expounded by union spokesmen, does not consider how the economy works—or how it grows. If an increase in wage rates reduces employment, there may be a net loss of purchasing power. On the other hand, if monetary authorities increase the money supply as

⁶⁵Golden & Ruttenberg, *op. cit.*, p. 84.

⁶⁶Ulman, *op. cit.*, p. 599.

a result of general wage increases that surpass productivity increases, the result is inflationary. Neither alternative leads to prosperity or healthy economic growth. Most important, the problem we face now—and the one we have faced for several years—is more one of unemployment than of an over-all shortage of purchasing power. We need *more* jobs and we cannot get them by economically unjustified increases in payments to those already employed. Although most economists are aware of the weaknesses of the purchasing power theory, this does not keep union leaders from espousing it as a route to economic growth.

The material already presented on employment shows the basic weakness of the second argument—that unions “shock” management into increasing efficiency and productivity. This is in fact what happened in the coal industry (see p. 40), where there has been a large investment of capital. However, the forcing of wage increases does nothing to increase the supply of capital available to the economy generally. We must, therefore, conclude that the rest of the economy was deprived of capital to some degree. As a consequence, the productivity gain in the coal industry involved some sacrifice of possible productivity gains elsewhere in the economy. It seems, therefore, that in such cases the labor unions should be charged with a distortion of the flow of capital, rather than credited with the gain in productivity.

In a competitive economy there is no guarantee that a firm will be able to compete successfully. Nor should there be. However, the pressure exerted by unions is an artificial one that interferes with the normal competitive process. If there is enough demand for a marginal firm to survive—and if its employees are willing to work for the wage it offers—should it be removed from the market by union power or government fiat? Testifying before a congressional committee on the subject of an increase in the federal minimum wage, George Meany indicated that he finds such firms expendable:

“If an enterprise cannot survive except by paying wages of 75 cents or \$1 an hour, I am perfectly willing for it to go out of business. I do not believe that such an enterprise is worth saving at that price. It does more harm than good, socially and economically. It is not an asset; it is a liability. So if this kind of business is killed by a minimum wage of \$1.25, I for one will not be sorry.”⁶⁷

He did not indicate where the people who lost their jobs as a result would find new ones.

The size of the economic pie is the determinant of living standards and, therefore, of economic well-being. Growth preceded unionization

⁶⁷Meany, George in Hearings before the Subcommittee on Labor Standards of the Committee on Education and Labor of the House of Representatives, 86th Congress, 2nd Session, 1960, p. 36 of Part 1 of printed hearings.

and cannot be increased by union pressures. As a matter of fact, many current union policies are more likely to retard economic growth. As David McCord Wright has commented, little can be done if what people want is secure, stratified poverty. However, union leaders demand "more" at the same time that their demands progressively hamper growth.⁶⁸

The fact that unions cannot increase real wages and productivity generally does not mean that union bargains on money wages and fringe benefits do not have an impact on the total economy.

Unions, Money Wages and the Distribution of the Economic Pie

We have already mentioned the "key bargains" that tend to raise all money wages. The first effect is seen on other union wage contracts. Then non-unionized employees seek higher wages to compensate for increases in the cost of living. Finally, these events become "evidence" for the need to increase the statutory minimum wage.

Another effect of union wage agreements is to increase the rigidity of wage costs. Historically, wages were usually forced upward in a period of expansion and tended to lag behind other cyclical changes in a period of recession. However, there was some responsiveness to general economic conditions. Unions have increased the inflexibility of wages during downward turns in the economy.

In addition to the basic wage rate, payments for fringe benefits remain unchanged during downturns. And fringe benefits are becoming an increasingly large part of the employer's wage costs. One hundred and eight companies have been included in seven surveys of fringe payments between 1947 and 1959. For those companies, fringe payments increased from 14.7 per cent of payroll in 1947 to 24.6 per cent of payroll in 1959. Legally required payments increased from 2.9 per cent to 3.7 per cent of payroll in that period.⁶⁹ One of the features of the UAW-automobile company settlements in 1961 was the "factoring in" of 12¢ of the 17¢ "cost-of-living float" then current. In other words, that much of the 1961 "cost-of-living adjustment" became base wage rate and only 5¢ of the

⁶⁸Wright, David McC.: "Conflicting Standards in Union Action." In Wright, David McC. (ed.) *The Impact of the Union*. N. Y.: Harcourt, Brace & Co., 1951, pp. 276-277.

⁶⁹Economic Research Department, Chamber of Commerce of the United States: *Fringe Benefits, 1959*. Washington, D. C., 1960, pp. 28-29.

17¢ is now subject to modification should the cost of living turn down. It is significant that American Motors' original offer of profit-sharing was hedged by its request for the elimination of the cost-of-living and annual improvement factors. The final contract gave the union both.

Another effect of unionism is found in the narrowing of wage differentials. This can occur within the unionized group. If a new contract calls for a flat-rate increase of 8¢ an hour, the proportionate increase is greater for the lower paid workers. This flattening of the wage structure can become a source of dissension in unions where the more highly skilled workers have resented the gradual disappearance of their financial advantage and the associated prestige. Some skilled groups, such as the garment workers, have demanded that the lowest wage in their industry be a given amount above the statutory minimum, with all other wages proportionately higher.

Another means of raising wage costs (and increasing their rigidity) is found in settlements that call for an increase of x cents now and y cents a year for the duration of the contract. This means that the employer is committed to the increase no matter what happens to his markets, to productivity, to the cost of raw materials—or to anything else influencing his ability to meet that increase. In some contracts there is a statement to the effect that the employees are to strive to increase productivity. However, for all practical purposes, it is impossible to enforce such a proviso and the wage increases are automatic. Further, some unions hold their members to an "average" rate of endeavor. This situation has reached the point where the National Labor Relations Board has taken official notice of it and the issue will probably be decided in the courts.⁷⁰

Wages and Profits

With a full employment policy and wage costs rising ahead of productivity increases, one possible economic "adjustment" is inflation, in the form of gradually rising prices. However, in the past decade, higher prices have been resisted and the result has been the profit "squeeze," with the resulting pressure to cut costs. The tabulation below shows labor costs, corporate profits before taxes and corporate profits after taxes per unit of output in the total private economy for three years: 1939, 1951 and 1961.

Between 1939 and 1951, unit labor costs and unit profits after taxes both approximately doubled. Since 1951, labor costs have increased again by approximately one-fourth. Profits, on the other hand, after a

⁷⁰"NLRB Tests Union's Fines For Doing Too Much Work." *N. Y. Herald Tribune*, November 23, 1961.

<u>Year</u>	<u>Unit Labor Cost*</u>	<u>Unit Profit Before Taxes</u>	<u>Unit Profit After Taxes</u>
1939	\$ 0.24	\$ 0.033	\$ 0.025
1951	0.49	0.132	0.059
1961	0.61	0.112	0.057

*Calculated from U. S. Department of Commerce data. Compensation in the private economy was divided by real gross national product for the private economy to get *unit labor cost*; corporate profits was divided by real gross national product for the private economy to get *unit profit*.

sharp downward trend in the late 1950's, are still somewhat below 1951 levels.

This tabulation defines the *profit squeeze*. Unit wage costs have gone up because wages have increased in excess of productivity; prices have not increased to the same degree in recent years; profits have necessarily declined. Individual industries have been differentially affected. (This is in contrast to the effect of high tax rates which are imposed on all industries.) Some manufacturing industries (basic steel, for example) have high capital requirements. The pressure of increased unit wage costs affects their ability to meet those requirements. Other manufacturing industries (textiles, for example) use relatively large proportions of labor. Increased unit wage costs have a negative effect on their competitive position in the world market and leave little margin for exploring the possibilities of technological improvement. As profits are, after all, the driving force for business activity and business expansion, the encroachment of costs on profits has tended to slacken the growth of the economy.

In the analysis of the problems created by the pressure of costs on profits, there must be recognition of the fact that many companies still make *some* level of profit. This is axiomatic to many observers. The problem is whether—given the existing cost and price patterns—the opportunities for profit are sufficient to bring about high levels of employment and satisfactory rates of economic growth. However, a great deal of the union argument that labor's share can be further increased out of profits seems to deny the essential motivating aspect of profits in the economy.

In discussing real wages we indicated that there was no accurate estimate of the course real wages would have taken in the last thirty years if labor markets had been competitive. To a marked extent this is true also of the course of money wages.

Some wage increases, as was indicated at the beginning of the section, are probably reactions to the pressure of union wages. Some of the wage increases accruing to non-unionized groups, however, undoubtedly

represent the fact that they are offering services that are in demand. An analysis of wage behavior in the post-war period includes a review of occupational differences. The tabulation below lists the major occupational categories and shows the rank order (1=high) of both percentage increases in median wage or salary income between 1950 and 1958 and of employment.⁷¹

<u>Occupation</u>	<u>Rank Order Income Increase</u>	<u>Rank Order Employment Increase</u>
Professional, technical and kindred workers	1	1
Clerical and kindred workers	2	4
Craftsmen, foremen and kindred workers	3	6 (actual loss)
Managers, officials and proprietors (except farm)	4	5
Operatives and kindred workers.....	5	7 (actual loss)
Sales workers	6	2
Service workers, except private households	7.5	3
Laborers, except farm and mine....	7.5	8 (actual loss)
Farm laborers and foremen.....	9 (actual loss)	9 (actual loss)

Two groups of non-production (and largely non-unionized employees) headed the income increase list; both had increases in employment opportunities. The three groups of production people (craftsmen, operatives and laborers), who tend to be highly unionized, are scattered throughout the list. All three of these groups sustained employment losses. Increasing the money wages of those whose work is in demand, and who are productive, does not create the type of strain that is associated with wage increases that have no economic rationale.

Unions and Inflation

Where unions can force money wages up in this latter way, they do so at the expense of employment or price stability. A national policy of full employment has tended to protect them from having to accept the responsibility for unemployment, although in some areas and industries the fact of unemployment cannot be disguised. It is, therefore, not surprising that unions tend to understate or explain away the inflationary potential of their demands. On the same occasion that he pronounced low-wage firms expendable, George Meany said:

⁷¹Based on data from Table 1 in Bowen, W. G.: *Wage Behavior in the Postwar World: An Empirical Analysis*. Industrial Relations Section, Department of Economics, Princeton University, 1960.

“ . . . if raising workers’ wages from 80 cents an hour to \$1.25 an hour causes some increase in prices, I refuse to be alarmed. The damage that 80-cent wages do to us, socially, morally, and economically, is far worse than any harm we might suffer by raising prices enough to pay \$1.25.”⁷²

More recently, when the international balance-of-payments problem became an issue of national concern, the AFL-CIO Executive Council adopted a statement suggesting that the “so-called” balance-of-payments crisis was being used as a “fear symbol.” In elaborating on the idea, they said:

“Meanwhile, slogans have already distorted the balance of payments issue into a fear symbol to fight necessary wage increases—both the higher federal minimum and collective bargaining gains—to oppose low interest rates, as well as foreign imports and foreign aid, and to call for a balanced budget at any cost. All these suggestions were advanced in a phony crusade against ‘inflation’ in the 1950s. Now they are proposed in the name of ‘restoring confidence in the U. S. dollar,’ ‘making America competitive in the world market’ and ‘ending the flight of gold.’ ”⁷³

Nevertheless a variety of economists, of different backgrounds, agree on the importance of price stability and recognize the problem of reconciling this with constantly rising wage costs and acceptance of a policy of full employment. Their solutions may vary but the diagnoses are very similar. A former chairman of the Federal Reserve Board, in the context of a discussion of the effect of money and credit policies on economic growth and stability, wrote of the:

“ . . . unstabilizing effects of the monopolistic power exercised by organized labor. It is unrealistic to gloss over the effects of its actions on prices, imports, exports, employment, rate of growth, and the deficiency in our international balance of payments.”⁷⁴

Upon his retirement, the top professional economist of the British Treasury discussed inflation first among Britain’s economic problems and showed that rising prices, under a full employment policy, contribute to a balance-of-payments deficit.⁷⁵ Also in the context of trade, the Council of the Organisation for European Economic Co-operation, in 1959, requested a group of experts to study the problem of rising prices. The report points out that wage increases resulting from negotiations (rather than market forces) have been an independent force contributing to price rises. One of the countries in which such wage increases constitute “both

⁷²Meany, George, 1960 hearings, *op. cit.*, p. 36.

⁷³AFL-CIO: *The American Federationist*, February 1961, p. 4.

⁷⁴Eccles, Marriner S. comment in *The Report of the Commission on Money and Credit*. N. Y.: Prentice-Hall, Inc., 1961, p. 45.

⁷⁵Hall, Sir Robert L.: “Britain’s Economic Problem.” London: *The Economist*, September 16, 1961, p. 1041 ff.

an important and independent inflationary force” is the United States.⁷⁶

Röpke suggests that an economy cannot have continuing wage increases, full employment and a stable currency but must sacrifice one to achieve the other two. He comments further:

“Those who insist upon an ‘expansionary’ or ‘dynamic’ wage policy under any label must accept a steadily progressing crumbling of the value of money and, indeed, the blame of being principally responsible for it. They are the most striking prototypes of all those thousands who keep complaining about inflation and hold others responsible for it but who, at the same time, raise and support claims which make inflation inevitable.”⁷⁷

The verdict on money wages, then, is that unions can force them up. However, with the inevitable economic consequences of unemployment or inflation, it is a Pyrrhic victory. Sir Robert Hall has commented that: “. . . it cannot be right that small groups should be allowed to hold the community to ransom, by appealing to a blind loyalty that had its roots in a different world. The community, which after all consists mainly of workers of one kind or another, should be allowed to protect itself.”⁷⁸

Labor's Share of National Income

There is an element of benefiting at the expense of others in the unions' approach to a “larger share” for labor. One successful route to the “more” labor wants comes from increasing the size of the economic pie—the total of goods and services produced. As we have already demonstrated, unions have not made, nor by their nature can they make, a positive contribution here. Where they do make a difference, through their money wage settlements, is in their demands at any given time for a larger share of the existing product. The arguments—as to what they have and what they have not achieved—in this connection are usually based on analyses of national income statistics.

National income data have become a familiar approach to the study of many economic issues. Because they measure the total factor costs of goods and services produced in a given period, one basic approach is the study of the various distributive shares — compensation of employees, profits of corporations and unincorporated enterprises, rent, interest, etc. At any given time, the shares must add up to 100%. Therefore, if one group in the economy is receiving a larger proportion than usual, it is because one or more of the other groups are receiving smaller proportions.

⁷⁶Fellner, Wm. *et al.*: *The Problem of Rising Prices*. Organisation for European Economic Co-operation, 1961, pp. 45-46.

⁷⁷Röpke, *op. cit.*, p. 211.

⁷⁸Hall, Sir Robert L.: “Britain's Economic Problem.” London: *The Economist*, September 23, 1961, p. 1134.

Table 2
Compensation of Employees as Per Cent of Income*

	(A) Per Cent of Total National Income	(B) Per Cent of Total Private Income**	(C) Per Cent of Total Private Income Adjusted for Interindustry Shifts***
1929	58.2	56.1	56.1
1930	61.9	59.6	59.0
1931	66.6	63.9	64.7
1932	73.0	70.0	74.1
1933	73.6	70.2	73.8
1934	70.0	66.1	65.2
1935	65.4	61.3	61.8
1936	66.1	61.6	60.0
1937	65.1	61.3	60.0
1938	66.6	62.2	61.7
1939	66.1	61.9	60.4
1940	63.8	59.8	57.5
1941	61.9	57.8	54.9
1942	61.9	57.0	53.5
1943	64.3	57.8	53.4
1944	66.4	59.0	54.7
1945	68.0	60.0	56.9
1946	65.1	60.3	59.1
1947	65.0	61.6	59.2
1948	63.1	59.8	57.5
1949	64.7	61.0	58.2
1950	63.7	60.2	56.8
1951	64.6	60.6	57.0
1952	66.7	62.6	58.6
1953	68.3	64.5	59.9
1954	68.8	65.0	60.9
1955	67.8	64.0	59.6
1956	69.1	65.5	60.8
1957	69.6	66.0	61.6
1958	70.0	66.1	62.3
1959	69.7	65.9	61.7
1960	70.4	66.6	62.6

*Source: Based on U. S. Department of Commerce data.

**Total National Income less government and rest of the world.

***Weighted on basis of each industry's contribution to total private income in 1929. See Kerr, C.: "Labor's Income Share and the Labor Movement." In Taylor, G. W. & Pierson, Frank C. (eds.) *New Concepts in Wage Determination*. N. Y.: McGraw-Hill Book Co., Inc., 1957, p. 280.

This is different from the situation involved when the pie grows and everybody can get more at the same time.

With these considerations in mind, we turn to the data in columns A and B of Table 2. Both columns show fluctuations in "labor's share" (compensation of employees). The marked increase in the depression years occurred when other shares, particularly profits, were very small or, even, non-existent. Using 1935 (the year the Wagner Act was passed) as the basis for comparison with 1960, the increase in the compensation of employees has been 5 per cent as a share of the national income; 5.3 per cent of total *private* income.

This is the type of statistic which lends itself to highly subjective interpretation. It is small enough for some economists to conclude that labor's share has been "highly constant." This, in turn, can be interpreted as meaning that unions pose no economic threat or that they have been ineffective in their attempts to raise wages at the expense of other segments of the economy. On the other hand, it is large enough for unions to claim to have "done something" for labor and for them to have created the stresses and dislocations in the economy which have already been discussed.

In an attempt further to refine this approach to the issue, Clark Kerr has called attention to the fact that the types of work people do influence national income statistics. Quite obviously, as fewer people are self-employed, more income is included in "compensation of employees." The long-range decline in agriculture is an example of the decline of one kind of economic activity in which self-employment has been high. Further, some sources of employment (government and, in the private sector, construction) with a high wage and salary component in the income they add to the economy, have become relatively more important in recent years. When these shifts in what Kerr calls "industry mix" are considered, it becomes apparent that they are an independent factor in determining the size of the employees' share of national income. Column C in Table 2 represents compensation of employees as a proportion of total private income with corrections for changes in industry mix. The trends are very much the same as in the first two columns, although the increase from 1935 to 1960 (when unions have been strong) is smaller.

Kerr's conclusions, based on such data and on industry-by-industry comparisons, is that the trend in labor's share is no more favorable in unionized than in non-unionized industries. He believes that employees are better off to the extent that all income recipients are better off. In other words, he finds the explanation for well-being in the size, rather than the distribution, of the pie.⁷⁹

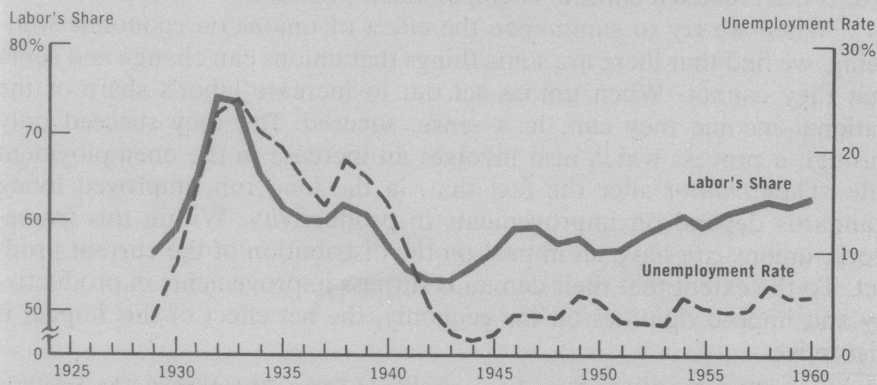
⁷⁹Kerr, *op. cit.*, pp. 280-281.

It is our belief, however, that trends in the distribution of the pie will ultimately have a negative effect on the size. Using Column C, as the most refined approach to labor's share of the national income, we find that compensation of employees was 60 per cent or more for 15 of the years included in the table. During 13 of these years, unemployment in the civilian labor force was above 5 per cent; it was more than 4 per cent in the other years. The median rate of unemployment for these years was 15.9 per cent. By contrast, in the years for which employees' compensation was less than 60 per cent, civilian unemployment was above 5 per cent for only 5 years and above 4 per cent for two more. The median unemployment rate for these years was 3.9 per cent. Six of the "high labor share" years occurred in the past decade. Between 1951 and 1961, corporate profits before taxes declined from 15.1 to 10.7 per cent of national income; profits after taxes dropped from 7.1 to 5.4 per cent. Since 1954, the unemployment rate has been at 4 per cent or higher.

The data on labor's share and unemployment rates are the basis for Chart III. The share going to labor obviously *can* be varied. However, the trends shown in the chart take us back to a question raised earlier: at whose expense are these gains made? The cause-and-effect relationship is not automatically defined, although the data suggest that there is a correlation. When labor's share goes down, the trend of unemployment is also down. As labor's share rises, so does the unemployment rate. Three interpretations may be considered. The first is that sluggishness

CHART III.

Labor's Percentage Share of Adjusted Total Private Income and Unemployment Rates, 1929-1960



associated with cyclical down-turns causes the increase in both unemployment and labor's share. The second is that unemployment causes the high share. The third is that the high share causes the unemployment and, because of the squeeze on profits, the general economic sluggishness.

If either of the first two explanations is valid, then unions have not "increased labor's share" in any causal sense. If the third explanation holds, unions must accept the blame for the unemployment as well as claim credit for the increase in labor's share. No matter which explanation you accept, the unions do not seem to have much to boast about in the way of contribution to the welfare of working people.

Unemployment may be due to different causes at different times. It is certain, however, that an upward thrust of labor costs, at a time when they cannot be recovered in higher prices, tends to produce business sluggishness and unemployment. Per Jacobsson, Managing Director of the International Monetary Fund and an economist of world-wide reputation, has placed this interpretation on the business downturn of 1937:

"... when money wage rates in the United States were suddenly pushed up by 15 per cent in the boom of 1936-1937, costs became too high in relation to the prevailing price level; business activity was reduced and, with the fall in profits, there was little demand for new credit from the business community and little inducement to investment. This is in my opinion the true explanation for the business setback and the heavy unemployment in 1938-1939 in this country; I give no credence to any explanation based on a supposed persistent tendency to structural stagnation, with shrinking opportunities for the investment of current savings, or on a conspiracy among businessmen."⁸⁰

In the period from 1957 to the present (1961) we have also had an upward movement of unit labor costs at a time when markets would not permit an upward movement of product prices. The resulting squeeze on profits has created a chronic unemployment problem.

When we try to summarize the effect of unions on economic well-being, we find that there are some things that unions can change and some that they cannot. When unions set out to increase labor's share of the national income they can, in a sense, succeed. But they succeed only through a process which also involves an increase in the unemployment rate. They *cannot* alter the fact that, in the long run, improved living standards depend on improvements in productivity. Within this framework, unions *can* have an impact on the distribution of the current product. To the extent that their demands surpass improvements in productivity and impose rigidities on the economy, the net effect of this impact is disruptive.

⁸⁰Jacobsson, Per: *The Market Economy in the World Today*. Philadelphia: The American Philosophical Society, 1961, p. 48.

Labor Unions and the Economic Situation

Our discussion of unions has been concentrated on the economic well-being of working people. The reason for the emphasis is found in the fact that union power appears to stem from the widely-held belief that the unions are responsible for the improvement in the economic status of working people generally—and their members specifically. We have found this belief to be unsupported by the facts.

Emphasis on one aspect of the economic impact of union power does not mean that we consider the effects to be either negligible or localized in any one company or industry. The relationship between shifts in labor's share of national income and unemployment, the ability of unions to shut down entire industries or segments of the economy, the effect of "key wage bargains" on wage rates generally, the political potency of labor's demands for legislation, all indicate the naivete of such an interpretation.

We have already indicated our conclusion that although unions cannot prove their claim to have improved the well-being of labor, they have the ability to disrupt the functioning of the economy. The specific form in which this power is manifested varies as other economic events either reinforce or counteract direct and indirect expressions of union power.

In their 1962 report on the economy, the President and his Council of Economic Advisers drew attention to certain serious current economic difficulties. Included among them were: the international balance-of-payments deficit; the need for a higher level of investment to support economic growth; the damaging effects of wage increases in excess of productivity gains. Certainly governmental policies themselves have contributed to these problems—and appear likely to continue to do so. However, union power and policies are another element found in all these situations and can, in turn, affect government programs.

Three related sets of facts, already discussed, largely explain the sluggishness of the economy in the past several years. They are: (1) the continued upward movement of labor costs; (2) market conditions that have made it impossible for business to pass these higher costs on in the form of higher prices; and (3) the resulting and gradually tightening squeeze on profits. Unfortunately the Administration sees the squeeze on profits as a result, rather than a cause, of the under-utilization of our national productive capacity. Thus it continues to distribute admonitions to both business and labor to exercise restraint and avoid inflation. It is interesting in this connection that the now famous "guideposts" set by the Council of

Economic Advisers for non-inflationary wage and price behavior include a list of modifying circumstances in the light of which wage and price increases would exceed or fall short of the general guide rates, depending on the employment and wage situation within the industry, the ability to attract capital, and the “bargaining position” of the workers.⁸¹ Little attention has been given to these modifications in the Administration’s subsequent discussions of wage-price stability.

Although many economists were worrying about “cost-push” inflation two or three years ago, more recently business has not had sufficient market power to recover its higher costs. This does not mean that the price levels that were reached during the inflationary period are no cause for concern. The problems of our finished manufactured goods in meeting competition in the world market are of central importance to the balance-of-payments problem. Not much that we do to expand our foreign trade can be very effective if our goods are not priced competitively. The restraint imposed by foreign competition will be one more factor to keep prices from rising. At the same time, if costs continue to go up, there will be further squeeze on profits and abandonment of some marginal activities to foreign competitors. Price index stability—without cost stability—cannot be regarded as evidence that we are successfully meeting the problem of foreign competition. Yet, as has already been stated, the AFL-CIO refers to a “phony crusade” to make America competitive and end the flight of gold—as “phony” as the crusade against inflation in the 1950’s. Further, at the same time that the Administration calls on business and the unions to exhibit restraint, it continues its requests for increased expenditures. Most of these are union-approved; many are only the minimum of what the unions want. Certainly the “need” for those programs aimed at the problems of unemployment is not unrelated to previous union activities.

The fact that our problems change—that the focus of our concern shifts in a relatively short time, for example, from inflation to unemployment—is used by the unions to argue about “solutions” to each discrete problem. There is continuity among them, however, just as there has been continuity in the trend toward increased labor costs and toward increased union power.

This paper began with a review of the lines of thought which led to the encouragement of unions and, eventually, made possible their present privileged position. It is not remarkable that the unions have taken advantage of every opportunity to consolidate that position and transform it into power. What is remarkable is that so few molders of public opinion and public policy have recognized—and become concerned about—that power. Very little in American economic life, from the price of a quart of

⁸¹Report of the Council of Economic Advisers, 1962, p. 189.

milk to federal fiscal policy, can now be determined without some response to "what labor wants." At this particular point in our history, for example, it is a truism that we "need" more economic growth. Yet there is a very real problem as to whether this over-all goal can be achieved without applying new perspective to the interpretation of persistent union demands.

We have not attempted in this paper to establish criteria for differentiating the "legitimate" activities of unions, in concrete cases, from their "illegitimate" ones. The legislators, judges, administrators, lawyers and others who have to cope with those problems on a daily basis will find them as puzzling as ever.

The question with which we have dealt is the one that is prior to such problems: *Would we, in imposing restraints on the power of labor unions, run a grave risk of losing benefits that would otherwise accrue to America's working people?*

The answer is no.



ECONOMIC IMPLICATIONS OF UNION POWER