Labor-monopoly

THE LABOR - MONOPOLY ISSUE

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Fall Semester, 1952.

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I. Introduction

There have always been economists who have abhorred monopoly in any form. Since before the time of Adam Smith economic thinkers have extolled the virtues of a "natural" economy---an economy which is regulated almost exclusively by endogenous forces. This "laissez-faire" doctrine contends that each individual will pursue his own self-interest and, in so doing, will promote the general welfare since the whole is no more than a combination of the parts. The guiding mechanism in such an economy would be Adam Smith's "invisible hand" or the price system. In this scheme wages are treated as the price of labor.

Such economies are said to be democratic in that people choose goods and services by casting their money votes for them. It is claimed that this laissez-faire economy, with a given social milieu, produces the most efficient allocation of goods, services and resources. That is to say, if the price mechanism is allowed to operate without restraint there will be optimum consumer satisfaction, an optimal return to productive factors, and the most efficient allocation of natural resources.

Reasoning from this ideal model, some economists have proceeded to analize the world in which they lived in order to ascertain wherein it fell short of the standards of the ideal. It was immediately recognized, human nature being what it is, that the system could be disrupted from the outside by war and from the inside by various offenses which men might perpetrate against each other. For this reason complete laissez-faire has never been sanctioned and it is conceded that governments have functions in these "natural" orders, though these have usually been restricted to Adam Smith's classic trinity of defense, justice, and certain public works.

This allowance for government, however, is not considered detrimental to the operation of the ideal economy. As the idealist continued to analize the economy in which he lived he found that the real villains of the piece were monopoly and the extension of government control in such a way as to promote monopoly and interfere with the free play of prices. The extension of governmental services in the direction of "doing for the people what they cannot best do for themselves," is in harmony with the above framework. Disagreement in this case is therefore not ever the theoretical framework of the natural economy but over what the people can best do for themselves. This is a difficult problem and is largely reducible to subjective value judgments.

Our concern here is with the larger menace of monopoly. Monopoly is said to interfere with the operation of the free enterprise system by preventing the automatic adjustment of prices and enhancing the profits of the monopolist at the expense of the other productive agents in particular and society in general. In the more sophisticated analysis of Alfred Marshall, the monopolist has downward sloping average and marginal revenue curves because he has control over the supply of his commodity. Since all entrepreneurs operate at the output where marginal cost equals marginal revenue and marginal revenue falls faster than average revenue, monopoly price will be greater than marginal cost (which equals marginal revenue in equilibrium), and the monopolist will enjoy "excess" profits, or profits above that just necessary to keep him in the industry. This equilibrium point will thus be at a higher price and a lower output than would be the case under competition.

The more important assumptions upon which this atomistically competitive analysis is based are: (1) perfect mobility of factors of production, (2) perfect knowledge of market conditions, and (3) many buyers and sellers. These assumptions must be clearly borne in mind as one proceeds to compare the real world with the ideal.

There have always been those who have contended that this reasoning is applicable to combinations in the labor market as well as to those in the product market. There has been much ambiguity on this point, however, and clarification seems necessary in order to make the arguments of this paper more explicit. Monopoly means one seller. Oligopoly means a few sellers. Monopolistic competition refers to the situation where the seller has some control over supply through product differentiation but at the same time operates under elements of competition by dint of the large number of sellers.

While those who view monopoly as the paramount enemy of the "competitive free enterprise" system sometimes fail to indicate clearly which of the above collusive forms they have in mind when they are discussing product markets, they are even more guilty of this oversight when they discuss labor markets. If they mean by labor monopoly any situation where there is only one seller of labor, assuming for the moment that unions are indeed sellers of labor, then it is evident that they will have extreme difficulty identifying such a situation in the real world. On the other hand if they mean oligopoly or monopolistic competition they have failed to make this clear.

To overcome this difficulty and make the analysis which follows more explicit we shall use the term "monopoloid" to mean a condition in which there is some degree of control over supply by one or a few sellers. It seems that this is what most writers mean when they contend that unions are "monopolies". Otherwise their arguments seem very tenuous indeed, because of the above-mentioned difficulty of identifying one seller of labor in the real world.

It is recognized that some obscurity is introduced by using the criterion of "some degree of control over supply" by one or a few sellers. There can obviously be no objective and definite measure of the degree of monopoly power exercised by a collusive group of sellers. The degree of monopoly control is a relative matter. A company operating in a concentrated area might control only ten percent of the total national supply of a particular commodity and still exercise considerable monopoly power. Another firm might control 20 percent of the total supply in the country and have very little monopoly power due to the dispersion of its market. Likewise, a union might control only a small percentage of the total supply of labor and have considerable monopoly power. Therefore the substantial degree of control must be ascertained from the particular market, and must be based entirely on ad hoc considerations.

With this introduction we shall attempt to answer two important questions in the following chapters: (1) are monopoloids detrimental or beneficial to the economy and, (2) what is the role of unions in the American economy ? These questions are obviously related and it will be necessary to understand the effects of monopoloids per se before we can determine the influence of unions in the economy.

II. Monopoloids: Social Menaces or Public Benefactors ?

In this chapter we shall examine some of the economic implications of the prevalence of what we have termed "monopoloids"---where the supply in a market is controlled by one or a few sellers. We shall here be concerned with enterprise monopoloids, and shall discuss trade unions and their role in the economy in subsequent chapters. The development of the general influence of monopoloidal business firms is considered necessary to an understanding of the impact of the union.

When an examination of the effects of any phenomenon on a system is being undertaken with a view to reaching normative conclusions it seems desirable to set forth the objectives towards which that economy should be progressing. While there is some disagreement as to the desired goals of the American economy and as to whether or not objective standards of desired achievement can be postulated, it is believed that most economists are in substantial agreement on this subject. Disregarding the many theoretical and intangible welfare arguments, a goal of maximum production coupled with full employment and economic stability would seem to be an objective on which there is almost universal agreement. Proceeding under this assumption we may say that those phenomena which impede progress towards this objective should be discouraged and, if possible, eliminated. Conversely those phenomena which are conducive to the attainment of this objective should be sanctioned. We shall judge the efficacy of monopoloids on the basis of these criteria.

As we have seen above, many, perhaps most, economists contend that monopoloids create rigidities in the economy and therefore obstruct the automatic operation of the price system. Unemployment is due, in this schema, to output restrictions by monopolistic entrepreneurs and by the impediments to adjustments in the labor market created by artificial wage restraints. As one observer has put it,". . . imperfect competition or rather the absence of absolutely pure competition, including the labor market, can be offered as nearly a comprehensive 'cause' of cyclical fluctuations."[1] The crux of this argument seems to be that, given unlimited human wants, all markets would be cleared if prices were allowed to fluctuate in accordance with supply and demand. The obvious solution to almost all economic problems then is to eliminate "monopoly."

There are several objections to this line of reasoning. In the first place it is never made quite clear just what it is that should be eliminated. Should we undertake to eliminate monopoly, oligopoly or monopolistic competition ? Surely all of these market forms cause the economy to deviate from the competitive ideal. If it is just monopoly that is to be destroyed, then we have no task at all, for there are very few situations in which one seller has absolute or even substantial control of the supply, if by this we mean that one seller can manipulate prices entirely in accordance with the dictates of his own interests.

On the other hand if the problem is to eliminate all monopoloids, and this is the only solution compatible with the atomistically competitive ideal, then the task is a formidable one indeed; for it can amount to nothing less than a wholesale reorganization of society. It is the contention

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1. Galbraith, J. K., "Monopoly and the Concentration of Economic Power," in <u>Survey of Contemporary</u> Economics, Howard S. Ellis, ed., The Blakiston Company, Philadelphia, 1949, p. 111.

here that such an undertaking is administratively impossible, as well as economically undesirable.

In the second place, the adherents of the atomistically competitive free enterprise system are overlooking the fact that the assumptions upon which their system is based in no way resemble the conditions underlying market structures in the real world. Perfect knowledge, perfect mobility and many buyers and sellers obviously do not obtain in modern economies. This argument has been advanced so frequently that there seems to be little point in dwelling upon it. However there is a question in this connection which does seem relevant here. This has to do with the nature and significance of economic theory as a guide to economic policy.

It is often argued that we analize the theoretical mechanism of competition in order to have a starting point in explaining the real world. This is done by ascertaining wherein the assumptions underlying the competitive ideal fail to obtain in actual market situations. Theory here is seen as a guide in that it gives us a frame of reference from which we proceed to consider reality. This seems to be a laudable purpose and, if strictly adhered to, economists should make good policy makers or advisors, assuming that their theories are reasonably correct. It seems, though, that the converse has often been true with respect to the subject at hand.

The notable example of this was during the depression of the 'thirties when theoretical economists were called upon to give a solution to the problems that confronted the United States at that time. In line with traditional reasoning on this subject some economists set about to determine how much monopoly existed in the economy. This school drew support from several lay sources: lawyers, progressives---including liberal congressmen---Grangers and Populists.

This group maintained that the primary reason for our economic ills was the fact that the anti-trust laws had never been vigorously enforced. Appropriations for this purpose had never been adequate, and enforcement had been sporadic. It was decided that the anti-trust laws should be given a fair trial.

The champion of this movement was Thurman Arnold. From 1938 to 1941 roughly, he was given the financial, moral and theoretical weapons with which to enforce the anti-trust laws. Appropriations for this purpose rose from $435,000 in 1936 to $1,325,000 in 1941. The drive was vigorously undertaken against all forms of monopoly: oil companies, ALCOA, The American Medical Association, The Associated Press, the building trades, local guild-monopolies and unions.

What were the results of this vigorous drive ? According to Galbraith, "There is no evidence that the ownership and control of American industries was any less concentrated in 1940 than in 1935 or that is would have been more than marginally different by 1950 had the drive continued in the tempo of the 'thirties. Nor is there any evidence that the drive contributed to recovery or any reason for supposing that it was capable of making the economy less subject to cyclical instability."[2] It is significant that this drive came to an end when it was necessary to concentrate on greater production for the war effort.

At the intellectual level interest in monopoly was manifested by the activities of the Temporary National Economic Committee. This was largely a monopoly investigation, the stage for which had been set by Arnold's

2. Ibid., p. 117.

dramatic anti-monopoly drives. Galbraith tells us that, "The TNEC was in a great Anglo-American tradition of conjoined lay and expert inquiry into economic questions. It was carefully planned. Funds were reasonably adequate. It had wide access to economic data at a time when these had reached a high order of excellence. It reached out to command a large amount of specialized talent. Yet by almost any standards the TNEC was an undistinguished and disappointing enterprise."[3]

The TNEC did not make a serious attempt to explain why we had concentration and monopoloids, furthermore nothing was done to explain how combinations entered into the larger problem of the economic maladies of the 'thirties. The apparent justification for this omission was that everyone knew that all of our troubles were due to "monopoly." In fact they said: "The members of the Committee are not rash enough to believe that they can lay down a program which will solve the great problems that beset the world, but they are convinced that the information which this Committee has assembled . . . will enable the people of America to know what must be done if human freedom is to be preserved."[4]

The Committee recommended: faith in free enterprise, enforcement of anti-trust laws, patent reforms, registration of trade associations, federal charters for national corporations, more business research and better housing, food and health for the underprivileged. Commenting on these recommendations, Galbraith says, "Although no mention was made of the importance of regular prayer, Representative Summers did remind the Committee 'that there is a living God whose laws control everywhere . . . as distinguished from

3. Ibid., p. 121.
4. "Final Report and Recommendations," TNEC Document 35, U. S. Government Printing Office, Washington, D. C., 1941.

being governed by the theories of men !'"[5]

Thus we have two attempts at solving our economic ills; one practical, the other intellectual, and while they gave aid and comfort to each other, they both were dismal failures. The reason for the failure of TNEC is largely the subject matter of this paper---that our theoretical belief in an atomistically competitive society lacks historical and institutional orientation and, therefore, is a poor guide to policy as well as a deficient tool for understanding the world in which we live. The TNEC was "far too deeply committed to the small-scale, competitive ideal to admit of and prescribe for a monopolistic economy."[6] Without realizing that their ideal was impossible of achievement, they refused to be parties to any such heresy as admitting that we were stuck with the economy that we had and that in reality it probably wasn't so bad after all. They refused to place theory in its proper place as a tool of thought; they blandly assumed that the theoretical economy in their logical minds and books could, with hard work and vigor, become a reality.

The failure of the "trust-busters" was due to the utter enormity and impossibility of their task, which, as we have seen, was to remake society. This is not to deny that the "Arnold era" was completely unproductive of beneficial results. The threat of government intervention is probably an effective deterrent to the more nefarious practices of monopoloids. This, probably, is the proper place of anti-trust legislation and enforcement. It should be a police measure to prevent the more underhanded practices such as price squeezing, rebates and the like, but cannot be an instrument to

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5. Galbraith, op. cit., p. 123.
6. Ibid., p. 124.

render the economy atomistically competitive.

The third objection to the line of reasoning employed by those theorists who contend that the goal should be to establish the ideal order by eliminating monopoloids, purely aside from the above objections, is whether or not such a society would in reality move us closer towards the recognized objectives of greater production, stability and full employment.

It is not at all convincing to contend that many small competitive firms would render the national product any larger than it now is. The advantages of innovation and research to modern societies are open to very little doubt, particularly in view of the work done by Keynes, Robertson, the Swedish economists and others, showing the importance of investments in the effective operation of capitalist economies. Can it be maintained that more investment would result from many small competitive concerns ? Would the smaller firm undertake research and innovation if it knew that its discovery would be very rapidly adopted by others and that the rewards for its efforts would be fleeting and probably very small ? Would numerous small competitive firms have the financial resources to undertake research programs ? The evidence seems to be preponderantly in favor of the monopoloids. The large monopoloid is likely to spend more for research because it has more, and because its control over supply renders the benefits therefrom more lasting and certain. None of these conditions hold true under the more competitive circumstances in the economy. Consider, for example, the amount of innovation and invention which has been brought about by the oil and chemical monopoloids as contrasted with the more competitive coal and agricultural industries. In agriculture, which is usually cited as the summum bonum of free enterprise, most research is, of necessity, conducted by governments.

This leads us to agree with Professor Schumpeter when he said that, "As soon as we go into details and inquire into the individual items in which progress was most conspicuous, the trail leads not to the door of those firms which work under conditions of comparative free competition but precisely to the doors of the large concerns---which as in the case of agricultural machinery, also account for much of the progress in the competitive sector---and a shocking suspicion dawns upon us that big business may have had more to do with creating the standard of life than keeping it down."[7]

The adherents of the competitive ideal also maintain that this society would be more stable. The contention is that rigid monopoloidal prices are responsible for instability. How is it that monopoloids, while holding prices stable are actually a force for instability ? It seems just as valid, if not more so, to say that "competition" is the force for instability by not holding their prices more stable. The very essence of the atomistically competitive society would be instability---a fine balance upset by the slightest change in a variable and, human nature being what it is, probably setting off a chain of cumulative forces resulting in violent fluctuations. The economy characterized by many buyers and sellers would be very unstable unless, of course, we make the very unreal assumption of perfect knowledge and contend that people would know that the change in the initial variable would be the only change to be expected; only then would they institute the actions designed to restore equilibrium.

In the absence of perfect knowledge it would be difficult indeed for many small producers to adequately guage markets and know the exact quantities

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7. Schumpeter, J. A., Capitalism, Socialism, and Democracy, Harper and Brothers, New York, 1942.

to be produced in order to satisfy demand and keep the system in equilibrium. The obvious result of miscalculations would be overproduction, unemployment and instability. It is difficult to see how such a situation would be more stable than a monopoloidal one where the producers had more perfect knowledge of markets. It seems much nearer the truth to say that monopoloids make for more perfect knowledge than do atomistically competitive markets.

The primary desire on the part of individuals in modern societies is probably for greater security. In an economy characterized by mass production, interdependence and division of labor, the individual, acting alone, must of necessity feel insecure. His control over those variables which vitally affect his existence is very tenuous indeed. This insecurity is accentuated by the uncertainty which results from a host of complex variables. A possible explanation for monopoloids, therefore, is that enterprises attempt to render their positions more certain by controlling supply, prices, and, if possible, demand.

The next question is: how can those who advocate a more competitive situation for modern economies fail to see this basic nature of the system? The explanation probably lies in what we may call an "intellectual lag," which is the result of a failure to consider things relative to time, place and circumstances. Systems of thought which are applicable to earlier economic orders, and which are logically correct, are not necessarily applicable to a much different contemporary society. Ideas do not keep pace with the changing economy. This seems to be an explanation for such fiascos as the Temporary National Economic Committee.

Summary and Conclusions

In this chapter we have considered the question of whether or not monopoloids are detrimental to the economy. The answer seems to be that they are better guardians of full employment, greater production and economic stability than are the more competitive elements. Nothing has been said here of the effects of coexistent monopoloids and more or less competitive markets. This will be discussed in subsequent sections.

We have also seen the futility of attempts that have been made to achieve the competitive ideal and the difficulties caused by the "intellectual lag." We have maintained that the growth of monopoloids is probably attributable to the desire for greater security in an uncertain, highly interdependent economy.

Nothing that has been said above should be construed as a condonation of the more nefarious practices perpetrated by monopoloids, such as price squeezing and underhanded methods of preventing entry into markets, etc. The more constructive role of anti-trust policy is considered to be the elimination of these evils. The attempt to make the society atomistically competitive is viewed as definitely questionable.

This chapter is designed to preface the subsequent chapters in which we shall deal more specifically with the labor-monopoly issue. The chief criticism leveled against trade unions as "monopolies," which has been voiced in ever growing symphony among theoretical economists, is that they are destroying the capitalistic-competitive-free enterprise (or some combination of these adjectives), economy. It was deemed advisable, therefore, to consider the type of economy which trade unions are allegedly destroying before we proceed to the larger question of the role of trade unions in contemporary society.

III. The Union-Monopoly Issue

There has been a noticeable shift in emphasis on the monopoly issue in recent years. This shift has been towards a criticism of the trade union as the monopoloidal form which is transforming the American economy into one that will eventually be socialistic, syndicalistic or some other nefarious and undesirable collectivist economy.

At the outset it seems advisable to distinguish two phases of the union-monopoly issue. The first concerns the often-heard indictment that unions per se are monopolistic and detrimental to the free enterprise system. This is the problem to be considered here. The other argument contends that industry-wide collective bargaining is monopolistic and hence a threat to the existence of the free enterprise system. This problem will be considered in the next chapter.

Of course there have always been those who have contended that all monopoloids are undesirable and should be vigorously exterminated, as for example, Henry C. Simons.[1] The present trend, however, is to focus almost the full force of righteous indignation upon unionism as the principal culprit.

In order to properly assess the role of trade unions in the contemporary American economy it would, I think, first be necessary to develop a theory of this movement; a theory being defined as a causal system of the relationship between the labor movement and society. We cannot properly

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1. Simons, Henry C., <u>Economic Policy for a Free Society</u>, University of Chicago Press, Chicago, 1948.

evaluate the influence of trade unions on the economy unless we first ascertain the ideological propensities and behavioristic patterns of unionism in America; a solution to this inquiry would be given by a sound theory of the trade union movement. A theory alone, however, is not sufficient to elucidate the impact of the union on the economy. It will also be necessary to determine the influence of these professed objectives and activities of trade unions on the distributive shares of other productive agents---this problem will also be examined.

First let us examine the most important attempts that have been made at evolving a theory of trade unions in America. On this question, Robert F. Hoxie took what may be called an agnostic view. It was his contention that it was impossible and perhaps undesirable to seek general principles of trade unionism as a "movement." He held that unions were merely a group response to the particular environment in which they existed. This view sees the union as attempting to solve immediate problems with little thought of the "pie in the sky" or the ultimate achievement of a Utopia.[2]

Selig Perlman's philosophy is closely allied to the one held by Hoxie. He holds that the labor movement is not "an abstract mass in the grip of an abstract force" which will ultimately overthrow the present economic order and establish a socialistic one. Unions, in the United States, are envisaged as pragmatic and opportunistic in both theory and practice. Their aim is merely to spread the limited job opportunities and establish rules governing these jobs. They are impelled by no such utopian intellectual ideological dogma as is attributed to them by many economists.[3]

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2. Hoxie, Robert F., <u>Trade Unionism in the United States</u>, D. Appleton and Co., New York, 1921.

3. Perlman, Selig, <u>A Theory of the Labor Movement</u>, A. M. Kelly Co., New York, 1949.

Frank Tannenbaum sees the American labor movement as an expression of worker discontent at the insecurity placed upon them by a machine technology. The worker's insecurity is economic and social; the union is an attempt to establish the "status" of the worker in an insecure society dominated by the machine. Tannenbaum's central thesis is that, "The individual worker plans little more than greater bargaining power with his employer when he joins a labor union. His association with other men for control of the machine and the job which it provides has consequences which he does not plan, which he does not foresee. He must join a labor organization as a means of defense, and in the process of carrying out the implications of defense against the competitive character of the capitalist system he contributes to the rebuilding of present-day society---a contribution which represents a by-product of the more immediate and conscious attempt to find security in an insecure world."[4]

In 1951 Tannenbaum said, "The Union is not an instrument against society; it is an additional way of organizing society, not merely its labor, but in all of its other forms."[5] In this same work he contends that "The helpless individual could find neither loyalty nor security in isolation, and the opposition and violence attending Trade Union formations were in the end mere incidents in the inevitable coalescing of a society in which man could find himself a member of a community once again."[6] He predicts that "The corporation and the union will ultimately merge in common ownership and cease to be a house divided. It is only thus that a common identity may once again come to rule the lives of men and endow each one with rights

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4. Tannenbaum, Frank, The Labor Movement: its Conservative Function and Social Consequences, G. P. Putnam's Sons, New York, 1921, p. 32.

5. Tannenbaum, Frank, A Philosophy of Labor, Alfred A. Knopf, New York, 1951, p. 94.

6. Ibid., p. 66.

and duties recognized by all."[7] As to the role of government, Tannenbaum declares that "Government control is unstable because it can operate only through repression. In the end either the organic groups now in unions will destroy the authoritarian government state, or the government will end by stifling the industries and ultimately disintegrating them."[8] It may be noted in passing that Tannenbaum places no time limit on these prophesies; he deals in ultimates.

Other theories of the labor movement not directly applicable to America, but which are claimed to have universal validity are those put forward by Sidney and Beatrice Webb and by Karl Marx. The Webbs' view trade unionism as a "continuous association of wage-earners for the purpose of maintaining or improving the conditions of their working lives."[9] Its fundamental objective is "The deliberate regulation of the conditions of employment in such a way as to ward off from the manual-working producers the evil effects of industrial competition."[10] The special function of the trade union is the administration of industrial democracy. In the socialistic society envisaged by the Webbs, the union would progressively assume the character of professional associations. The methods used by the union, depending upon the stage of development, to achieve its objective are mutual insurance, political action and collective bargaining.

To Karl Marx the trade union was primarily an organizing center for the ultimate establishment of communism. Trade unions provided the medium through which the proletariat collected its forces. "The trade union developed originally out of the spontaneous attempts of the workers to do away

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7. Ibid., p. 199.
8. Ibid., p. 198.
9. Webb, Sidney & Beatrice, History of Trade Unionism, Longman's Green and Co., London, 1920, p. 1.
10. Webb, Sidney & Beatrice, Industrial Democracy, Longman's Green and Co., London, 1914, p. 807.

with competition, or at least to restrict it for the purpose of obtaining at least such contractual conditions as would raise them above the status of bare slaves."[11]

For Marx the Trade union was merely a step towards the ultimate destruction of the capitalist system. It was believed that trade unions themselves would remain within the capitalist framework. The impetus for revolution itself would come from forces outside the trade union movement---from the socialist leaders.

Thus it is seen that most of these theories differ only in their prognostications of the institutional ultimates of unionism. For all of them the primary purpose of trade unionism was the same, namely, to remove labor from competition. Marx, the Webbs, and Tannenbaum all believed that the union would either produce or be instrumental in producing the destruction of the capitalist free enterprise system. For Perlman and Hoxie, trade unions, especially in America, have no such ideological propensities, but are primarily pragmatic. The important thing for our purposes, however, is the point of agreement---trade unions are primarily interested in removing labor from competition. We shall have occasion in our final chapter to pass judgment on the predictions of these writers.

Let us next turn to several more recent theories which attempt to predict the future of trade unions on the basis of observable behavioristic patterns. The theories already examined, except for those of Perlman and Hoxie, held that the contemporary activities of trade unions had little relevance for the achievement of the ultimate collectivist society. The

11. Lozovsky, A., Marx and the Trade Unions, International Publishers Co., New York, 1935, p. 15.

following discussion deals with views predicated upon contemporary trade union actions and their ultimate effects upon society. We shall see that they too emphasize the monopoloidal nature of trade unions.

Professor Charles E. Lindblom contends that unionism and capitalism are fundamentally incompatible.[12] Lindblom bases this conclusion on the consequences of alliances formed between progressive groups and labor. The programs sought by this alliance are calculated to insure certain basic economic securities irrespective of the dictates of sound business principles. Regardless of the professed institutional ultimates, or lack of such a profession, Lindblom suspects that certain elements within the American labor movement are seeking to replace the present economic order with a collectivist one. He argues that regardless of whether or not labor's ideology is essentially conservative, as Perlman suggests, the mere weight of modern American unionism's coercive abilities will eventually replace the present free enterprise system with a collectivistic one.

Specifically, Lindblom argues that unions are conducting the attack upon the competitive price system on three fronts: (1) Unions push the wage rate too high, causing unemployment, inflation, or both. (2) Unions invade the realm of managerial prerogative to such an extent that productive efficiency is impaired and investment incentives are destroyed. (3) Unions entrench themselves in monopoly positions, disrupt potentially competitive market structures and force collusion with employers at the expense of the public. The consequences of union behavior can but lead to syndicalism. When the forces which are now at play have had sufficient time to work

12. Lindblom, Charles E., Unions and Capitalism, Yale University Press, New Haven, 1948.

themselves out, the economy will have suffered from inflation, unemployment, dislocation, intimidation, disruption, consumer exploitation, and the degeneration of entrepreneurs and the free enterprise or capitalist system.

Though Lindblom takes a dim view of the possibility of diverting his predicted disaster, he half-heartedly proposes the following possible solutions: (1) prohibition of strikes over wages in order to break the monopoly power of unions; (2) reviewing of wage changes or direct fixation of wages by public authority; (3) and prohibition of collusion by unions and employers. He is very pessimistic about these proposals, however, and believes that governments are either unwilling or unable to take positive action against trade unions.

To insure that we do justice to Mr. Lindblom's position, the following quotations from his Unions and Capitalism are offered as elucidating evidence of his arguments:

> The success of unionism is measured, however, only by achievement; and the hard fact is that it cannot be attained by good behavior. Where there is conflict between the needs of the worker and the accepted pattern of economic life, the union's power to satisfy the worker is also the power to destroy the pattern. This is the great problem of our time. Unionism is destroying the competitive price system. (p.4)
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> Abolish unionism, and the competitive system would still be threatened. It is in fact being attacked on every side, as, for example by government regulation throughout the economy. The importance of union power is that it hastens its decline and will govern in large part the form of the new institutional arrangements which are being created to take the place of the market. (p.139)
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> How unionism changes the allocation of resources is therefore in large part nothing more than a guess. Clearly in acting as a clearing house for information on jobs, rates of pay, and conditions of work, unionism makes a significant contribution to an improved allocation of resources. But no one can be confident that he knows on balance what the consequences of unionism are for resource allocation. (p.154)
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> . . . the extension of union power coupled with union wage monopoly will together establish . . . syndicalism . . . this is the challenge to the survival of competition . . .

> It is the outcome not only of the union drive for power and high wages but of management's desire to find a practicable compromise and of governments desire to keep the peace . . . Syndicalism calls for special attention, because it is the pattern of tomorrow's economy. (p.178)
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> Syndicalism is used here to describe the control and andministration of an industry jointly by management and the union in semi-isolation from the competitive forces through which the interests of the public are otherwise protected. The development of syndicalism is a process of cartelization; the essential idea is self-government of more or less autonomous productive enterprises by producer groups. (p.179)
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> . . . union control of the wage-making process and of managerial functions has gone so far as to constitute a radically new syndicalist organization of industry, at least in many localities . . .
>
> Of course the problem will be solved, as all problems are, in one way or another. The economy will not come grinding to a stop. For some time to come the best we can hope for is a society organized on the basis of a kind of warfare between major power groups. We shall be faced increasingly with inefficiency and rigidity in economic life as syndicates grow in influence and arise in industries now free from them. Whether union power gives us inflation or unemployment depends upon more than unionism itself. It can produce either, but the choice of the two will be made by government fiscal power and national monetary authority. (p.253)

It is to be noted that, although the title of this book is Unions and Capitalism, the latter term is seldom mentioned. Lindblom apparently considers capitalism as synonomous with the "competitive price system," a term "in which the characteristic features of our economy can be read."[13] In Lindblom's conceptual framework the competitive price system is a mechanism through which profit motives of independent business men operate to allocate scarce goods in accordance with consumer desires in a least cost manner.

Lindblom's arguments were dealt with at length because they apparently are being adopted by an ever increasing number of business men and

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13. Ibid., p. 6.

economists.[14] We shall attempt to appraise Mr. Lindblom's position after we have considered several views similar to his which have been expressed by some economists in recent years.

An indication of the position taken by many theoretical economists on the labor-monopoly issue is afforded by the recent publication of The Impact of the Union, edited by Dr. David McCord Wright.[15] This book is the result of a conclave held at the American University on May 12 and 13, 1950 by the Institute on the Structure of the Labor Market. In addition to Dr. Wright the following general economic theorists participated in the conclave: John Maurice Clark, Gottfried Haberler, Frank H. Knight, Kenneth E. Boulding, Edward H. Chamberlin, Milton Friedman and Paul A. Samuelson. We shall summarize briefly the important views of these economists as regards the impact of the union on the American economy.

Professor Gottfried Haberler contends that with "The growth of powerful and agressive labor organizations . . . it becomes virtually impossible to maintain full employment at stable prices."[16] He adds that "If the free enterprise system is to be preserved and drastic controls are to be avoided, it will be necessary, in my opinion, to change present wage policies and to reduce the monopolistic power of labor unions, because we can be sure that neither unemployment on a considerable scale nor inflation will be tolerated

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14. For other views supporting Mr. Lindblom's position, which will not be used in this paper, see Weisenburger, Walter B., "Why Management is Opposed to Industry-wide Collective Bargaining," The Sign, January, 1947; Steinkraus, Herman W., president of the Chamber of Commerce of the United States, New York Times, November 17, 1949; Randall, Clarence B., vice president of the Inland Steel Company, "Compulsory Arbitration," pamphlet of the National Association of Manufacturers, January 13, 1947; Flynn, John T., The Road Ahead, The Devin-Adair Company, New York, 1949; Machlup, Fritz, "Monopolistic Wage Determination as a Part of the General Problem of Monopoly," in Wage Determination and the Economics of Liberalism, Chamber of Commerce of the United States, Washington, D. C., 1947, p. 61; Wolman, Leo, Industry-Wide Bargaining, The Foundation for Economic Education, 1948; and Simons, H. C., op. cit.

15. Wright, David Mc., ed., The Impact of the Union, Harcourt, Brace and Company, Inc., New York, 1951.

16. Ibid., p. 57.

indefinitely."[17] Dr. Haberler recommends: ". . . prohibition of violence and coercion, especially of picketing, protection of those willing to work, prohibition of closed shop agreements and application of the Sherman Act to trade unions, or, to put it briefly, a mild stiffening of the Taft-Hartley Act, may be sufficient to bring about the desired results."[18]

Professor Frank H. Knight says: "Much technical monopoly is accidental, or inevitable, or even functional (cf. patents and copyrights; most monopolies are similar in stimulating innovation and are also limited and temporary). The importance of this evil is vastly exaggerated in popular thinking. Moreover, labor unions and farmers, supported by public opinion and often by the law, are now the monopolies that do the most damage."[19]

Professor Chamberlin says that "The time is past when the economist who wishes to be friendly to organized labor and critical of monopoly at the same time does not at least have something to explain. He can no longer retreat into the comfortable position that I have identified with traditional liberalism."[20] He adds that in collective bargaining, with the right to strike, "'Something new has been added' to the idea of bargaining---the power in the hands of one party to prevent the other from considering any alternative offers from others who might like to make a contract with him." And he adds, in an apparent state of exasperation, "and such a power in the hands of labor seems to be commonly regarded as not merely compatible with, but by many as even essential to, a 'free' society !"[21]

It might be added that Professor Chamberlin is one of the few critics of trade unions who makes a clear distinction between the two phases of the

17. Ibid., p. 61.
18. Ibid.
19. Ibid.,p. 101.
20. Ibid., p. 173.
21. Ibid., p. 185.

labor-monopoly issue which we mentioned earlier---unions per se as monopolistic and the issue of multi-employer collective bargaining. Professor Chamberlin claims that "Most of the traditional arguments as to the weak bargaining power of labor seem to apply, if at all, within the firm, and the disparity they indicate would be corrected if the laborers within each single firm bargained as a group with their employer . . .. I see no case against collective bargaining per se within the firm as monopolistic. The employer is already a single unit, and for the employees to become one through collective action can restore the balance . . ."[22] Professor Friedman concurs in this opinion.[23]

Though Professor Milton Friedman believes that unions cannot push wages above the "competitive level," and maintains that in reality wages are no higher than they would have been if we did not have unions, he thinks that "it is highly important to have labor monopoly covered by the Sherman Anti-trust Act, less because I have a clear conception of specific positive acts that could thereby be taken to reduce the power of unions than because such action emphasizes the identity of industrial monopolies and labor unions and the need for like treatment of them." He adds, "These optimistic conclusions about the possibility of keeping the power of unions in check do not imply any equally optimistic predictions that we shall do so. The economic power of unions, though exaggerated, is nonetheless already significant and important, and so is their political power. Inflation, however regrettable, seems likely, and with it a substantial further strengthening of the political and economic power of unions. For decades there has been an

22. Ibid., p. 179. Note: By "per se" Chamberlin apparently means without the right to strike. It is not clear whether this would be a company union, or whether or not he would allow this union to be affiliated with a national, international, or federation of these.
23. Ibid., p. 379 nn.

intellectual flight from the market towards direct state intervention in economic affairs---entirely aside from the influence of the growth of unions in this direction."[24]

Dr. Boulding concludes "with some general observations on the whole meeting. In the unlikely event of a good trade unionist ever getting to read these papers and discussions he would certainly be impressed by what is at worst an unfriendly and at best a quarulous attitude toward the labor movement. Whatever its sociological virtues, we seem to be saying, that the labor movement is an economic nuisance, if not a positive danger. This attitude, I think is an honest one . . . this attitude arises out of the nature of our specialized skills as economists, and out of the nature of the abstraction which is economics. We are specialists in exchange, in the price system, and in the labor market. The labor movement is part of that hatred of the market which has dominated the history of the West in the past hundred years, and which reaches its supreme expression in socialism. But the market is our baby: we cannot help loving it a little."[25]

We shall call the position developed above the "Chicago School," since its central features were advanced by Professor H. C. Simons of the University of Chicago, and since Professor Lindblom, who developed Simon's ideas in a more or less systematic way, apparently acquired them while studying at that University. From the above discussion we may say that the central thesis of these writers is that: Unions are invested with monopoly power and are therefore destroying the free enterprise system by pushing wages above the competitive level, causing unemployment, disruption, or a continuing inflation

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24. Ibid., pp. 233-234.
25. Ibid., p. 371.

which will become so serious as to cause the competitive system to be abandoned in search for remedies. The ultimate consequences of the union's activities is seen to be socialism, syndicalism or some other collectivist form of society.

Some of the critics of trade unions discussed above consider unions much more dangerous than enterprise monopoly (Lindblom, Wolman, Machlup and Knight, for example). This contention is based upon the belief that entrepreneurs and consumers have no accessible option to purchase labor if it is monopolistically controlled, whereas enterprise monopoly , which is often actually beneficial to the economy, can be effectively restrained by buyers turning to substitutes. Others (Friedman and Chamberlin, for example) would place enterprise and labor monopolies on an equal footing as regards their injury to society.

We thus see that those interpreters of the trade union's present behavioristic patterns are in basic agreement with the earlier theories which attempted to predict the institutional ultimates of the labor movement. Though they disagree on the nature of the type of society which is being created, as well as upon the efficacy of this anticipated order, they all agree that unions are monopolistic. Next let us appraise the specific premises upon which the "Chicago School" bases its position in order to see wherein they conform to or conflict with logic and reality.

Are Unions Monopolies ?

In our previous discussion of enterprise monopoly it was shown that much confusion results from a failure to be explicit as to what is connoted by the term "monopoly." If by this they mean one seller with absolute control over supply, then this is indeed a rarity in the American economy. On the other hand, it seems that what is usually meant by this term is that some degree of control over supply is exercised by the union. In product markets we usually categorize oligopolies as those markets in which there are a few sellers, and monopolistic competition as those in which supply is controlled through product differentiation. All collusive forms are considered detrimental to the competitive free enterprise system. For our purposes, therefore, we found it convenient to lump all of these market categories together and call them "monopoloids." We proceeded to analize the contention that monopoloids were detrimental to the economy.

In the case of labor unions, however, we obviously have a different situation. Only by the greatest stretch of the definition can it be held that there is anything approaching monopolistic competition in the labor market. It is conceivable that the appellation "monopoloid" could be used to describe unions, but the many differences between trade unions and corporations mitigate against the assumption that the same economic analysis can be used in both markets; this implication is conveyed when the term "monopoly" is used to describe organized labor.

There are several senses in which trade unions and industrial monopoloids can be considered as similar. Both unions and industrial monopolies are maximizing institutions. (As indeed are all living organisms). Difficulty arises, however, when we attempt to ascertain just what it is that is being maximized. All industrial monopoloids do not attempt to maximize profits as is often assumed. Some maximize a combination of profits, prestige, power, and a host of intangibles.

Trade unions do not try to maximize the wages bill. Nor do they attempt to maximize wages of any particular segment of the membership, as Professor Dunlop assumes.[26] They attempt to maximize a combination of wages, power

26. Dunlop, John T., **Wage Determination Under Trade Unions**, Augustus M. Kelly, Inc., New York, 1950.

for the leadership, prestige of the union and a host of factors, depending upon the stage of union development, its relationship with other unions, etc. It is probably nearer the truth, however, to contend that industrial monopoloids attempt to maximize profits (future and present) than to assume that unions attempt to maximize the wages bill. As Professor Ross has shown, unions are primarily political institutions, basically motivated by the desire to preserve the union as an on-going institution. Union leadership is primarily interested in maintaining its position.[27] In this sense the union can in no wise be envisaged as a seller of labor, and it is impossible to draw cost and revenue curves for the union in the same sense as they are drawn for industrial enterprise. The basic element in the theoretical analysis of monopoly, or monopoloids, is therefore missing in the case of unions.

The similarity here between the industrial monopoloid and the union is that whatever is being maximized, whatever the official rationale of the institution, "the formal purpose must be interpreted and applied to the problems at hand by leadership groups, that is, by corporate management and union officialdom."[28] Professor Ross adds that, ". . . in comparing the motivating impulses of the business firm with those of the union, we have . . . three kinds of objectives: (1) the formal purpose or rationale, representing the benefit accruing to the rank and file (stockholders and members); (2) the institutional objectives, survival and growth of the organization and (3) the personal ambitions of the leaders. Ultimately the human animal is selfish, and in the absence of identification personal ambitions will

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27. Ross, Arthur M., Trade Union Wage Policy, University of California Press, Berkeley, 1950, ch. 2.
28. Ibid., p. 25.

come first; but in the normal case, the leader advances himself by advancing the organization. The formal purpose must be accomplished, to a greater or lesser extent, if the organization is to stay alive; but when in conflict with the institutional objectives, it is forced to give way."[29]

Another similarity between unions and monopoloidal business firms is that they are both limited by economic factors. That is to say, the enterprise is limited by market factors in its ability to raise prices, while unions are limited by the elasticity of substitution of labor for other factors in their ability to raise wages. This limitation point might be the same for both the union and the enterprise. For example, if the union is able to push wages to such a level that the employer is forced to raise prices, it might then become profitable for consumers to turn to substitute commodities, or for the employer to substitute capital for labor. In which case the existence of the industrial monopoloid, or the union, or both would be threatened. Shultz and Myers have shown that, in these circumstances, union leaders will consider the employment effects of wage decisions.[30]

This is in harmony with the contention that the objective of the maintenance of power by the leadership will give way to economic factors which threaten the existence of the institution. As a general rule union leaders will not consider the employment effect if the existence of the institution is not being endangered.

The similarity between unions and business enterprise monopoloids which have caused the former to be branded "monopolistic" is that both institutions exercise control over supply. In both cases the control exercised

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29. Ibid., p. 27.
30. Schultz, G. P., and C. A. Myers, "Union Wage Decisions and Employment," American Economic Review, Vol. XL, No. 3, June, 1950, p. 362.

is a matter of degree as between different firms and unions, and in both cases the motivating purpose is to insure greater institutional and economic security.

In addition to those discussed above, there are the following important differences between unions and business enterprises: (1) The stockholder's dividend from a single company is a minor share of his total income, whereas the employee's wage is his predominant source of income. (2) The corporation stockholder's apathy is a blessing to managers, whereas the apathy of the worker is a threat to the survival of the union. (3) The union faces the hostility of the buyer of labor whereas the corporation faces no such hostility of consumers. As professor Ross points out, "The ordinary business contract does not require the same sacrifice of prerogatives as does the collective bargaining contract and is not resisted in the same way."[31] (4) The jurisdictional encroachment of rival unions is much more rapid and cataclysmic than the encroachment of competitors upon the corporate monopoloid. (5) The corporation, being the dominant institution of economic life, has less fear in the way of repressive legislation than the union, whose role in the economy has never been completely accepted by the public. (6) The business enterprise deals in commodities; the union in labor. The differences between labor and commodities are legion: labor cannot be accurately measured, while commodities can; labor is human, commodities are not; commodities are very mobile, labor is not; commodities are owned by the entrepreneur, labor is not owned by the trade union; commodities can usually be stored, labor cannot; etc.

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31. Ross, op. cit., p. 29.

As Professor Singer shows, "One may conceive the labor market as subject to its own peculiar principles and conditions, which normally and necessarily involve price-fixing and monopolistic elements, and view labor unions as political institutions, striving to survive, expand and gain certain positions within a labor movement. Such a conceptual framework rejects the blanket borrowing of commodity market programs intended to curtail monopoly or enforce competition and requires that any remedial programs be tailor-made for the labor market and the labor union."[32]

Our problem is to answer the question of whether or not trade unions are monopolies. On this point Mr. Wolman says that, "There cannot be much doubt that . . . various interpreters of the modern labor movement . . . see unions as actual or potential monopolies . . .. Men differ . . . not as to whether labor unions tend to become instruments of monopoly or whether an established, strong national union is in fact a monopoly. What they really differ about . . . is whether this condition . . . is of any importance and what its effects are."[33]

Wolman's analysis, along with many writers who maintain a similar position, is subject to two very important criticisms in this regard. In the first place he makes no distinction between different union structures and bargaining areas in his categoric assertion that unions are monopolies. He applies the conclusions reached from his analysis of industry-wide collective bargaining to the union per se, which is fallacious. In other words you cannot say: that industry-wide bargaining is harmful; <u>some</u> unions have industry-wide bargaining, therefore, all unions are harmful.

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32. Singer, H. W., "Wage Policy in Full Employment," <u>Economic Journal</u>, December 1947, p. 438.
33. Wolman, <u>op</u>. <u>cit</u>., p. 30.

In the second place, he fails to take into consideration the above differences between unions and business enterprises, nor does he define the term "monopoly." If monopoly is defined as a market where there is only one seller of goods and services, as is the usual case among economists, then obviously unions are not monopolies, for they do not sell labor. Furthermore, there are pitifully few markets in which there is only one union.

If he means by monopoly a situation in which the firm has some degree of control over the supply of the factor in which it deals, then his use of the term would be more tenable, but an obvious misnomer. He perhaps means "oligopoly," but this may and usually does produce vastly different results depending upon the number of firms, the elasticity of substitution between each factor, and the elasticity of demand for the final product.

The only purpose served by using the term "monopoly" is to convey an ulterior connotation of the institution being described. This should not be an admissible practice in scientific investigation. Therefore, at the expense of euphamism, we shall use the term "monopoloid" as being both more correct and less stigmatic, as we have done with business enterprises. Since unions indeed have some degree of control over the supply of labor, this term seems applicable.

The Effects of Labor Monopoloids

The more crucial question revolves around the effect of unions on the economy. We have seen above that a common assertion is that unions are destroying the free enterprise system, and are leading us down the slippery road to socialism.

The first assertion necessitates a definition of the "free enterprise system." It is a persistent oversight of those who make this attack upon trade unions that they fail to describe the economy which is the victim of that institution. For example, though Lindblom's book is entitled Unions and Capitalism, the latter term is rarely mentioned. Lindblom's equivalent is the "competitive price system," a term "in which the characteristic features of our economy can be read."[34]

Though it is often difficult to ascertain from these critics just what it is that unions are destroying, it seems safe to conclude that they have in mind the same type of atomistically competitive system discussed in our earlier chapter on industrial monopoloids. The same criticism given there is also applicable here, namely, that this economy exists only in theory and therefore cannot be destroyed. If they are discussing the "mixed-free-enterprise" system which exists in the United States today, they have failed to make this clear, and have committed the fallacies involved in reasoning from a theoretical system while proposing conclusions for an entirely different type of society.

The exact line of reasoning by which the "Chicago School" attempts to prove its assertion that unions and capitalism (using this term to describe the present economic system of the United States) are incompatible, is somewhat difficult to discover. Lindblom's discussion is especially confusing, particularly in view of his assertion that no one knows the effect of unions on resource allocation. He seems, however, to reach his main conclusion by projecting into the future certain tendencies now exhibited by unions. In other words, he contends that unions "have a tendency" to produce inflation, and that they "probably" will produce these results, though he is often proned to forget the conjectural nature of his analysis and make categoric

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34. Lindblom, op. cit., p. 6.

statements concerning them.

Lindblom, along with most of the "Chicago School," here commits the fallacy of failing to consider the relative nature of economic, social and political phenomena. Not only does he fail to consider that conditions have changed and that the individualistic competitive society which he thinks now exists is not the world in which we live, and therefore that the canons applicable to a competitive society cannot be used to analize the American economy today, but he also makes the mistake of assuming that union policies will not change as the economy advances. He projects the present employer and his policy into the future along with current union policies; he does not allow all variables to change pari passu.

The available evidence does not support this view. As labor movements are accepted as an integral part of society, they take a more general view of the economy and their attitudes take on a more conservative, public spirited tenor. For example Ross and Irwin conclude from their study of strike experience in five countries that, " . . . a conservative type of business unionism tends to emerge in the evolution of a (non-communist) labor movement. Industrial conflict is absorbed by a process of adjustment and accommodation, into the normal operation of the business economy."[35] Professor Kerr says of new unions, " . . . it is some of them which tend to get out of line in a period of full employment: a union is 'on the make' or decides to take full advantage of its unusual bargaining position; or employers try to hold their labor in or recruit more labor to low wage plants or industries."[36] Professor Fisher maintains that "As unions grow in strength and

35. Ross, Arthur M. & Donald Irwin, "Strike Experience in Five Countries, 1927-1947: An Interpretation," Industrial and Labor Relations Review, Vol. 4, No. 3, April, 1951, p. 339.

36. Kerr, Clark, "Government Wage Restraints: Their Limits and Uses in a Mobilized Economy," American Economic Review, Papers and Proceedings, Vol. XLII, No. 2., May, 1952, p. 378.

become securely established in the economic life of the nation, their roles may undergo a substantial change. Arising out of deeply felt grievances and propelled by a widespread sense of injustice and insecurity, the original impulse of most unions was one of protest. But as the union redresses injustice, improves wages, grows in its control of job opportunities, and generally develops an area of sovereignty which is the fundamental quest of the movement in America, its original motivations are frequently attenuated; its broad objectives narrowed, its passions for social justice calmed . . .. Characteristically, it is in this phase of development that unions are most responsible, when contracts are most likely to be held sacred, when leadership is most likely to guarantee the performance of membership."[37] Mr. Fisher goes on to show that unions would actually become more collectivistic if their institutional privileges were threatened.

Thus, we see that it is fallacious to contend, as the "Chicago School" does, that, on the basis of their present policies, unions are going to destroy the present economic system. If unions become a more accepted part of economic life, their policies will no doubt change. (The same trend can be observed in American business enterprise. The businessman in American today scarcely resembles his counterpart of fifty or seventy-five years ago.)

The "Chicago School" has predicated its entire position on assumptions that present behavioristic patterns of unions will be continued. It must also be noted that these conclusions are based on observations of a very abnormal period---a post-war full employment period following a world war during which most unions refrained from exercising their privilege to strike.

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37. Fisher, Lloyd, "The Price of Union Responsibility," Reprint No. 10 of the Institute of Industrial Relations, University of California, Berkeley, 1948, pp. 1-2.

Even if they proved that the present policies of trade unions tend to cause inflation, or actually cause inflation, which they have not, it would by no means follow that these policies could be projected into the indefinite future. This is an example of forgetting that you have allowed all variables save one---trade union policy---to change, when in the dynamic situations of reality all variables change.

Having disposed of this question we shall turn to the next---have trade unions in fact caused inflation and unemployment ? Though the mechanism by which the "Chicago School" attributes inflation and unemployment to trade unions is somewhat obscure, it seems to require distortion in the wage level between union and non-union segments of the economy, and a distortion of the wage structure itself. The former implies that wages are pushed above marginal productivity, resulting either in unemployment because of a substitution of other factors for labor, or in higher prices, or both. The latter implies that the structure of wages is distorted to such an extent that some workers receive more than their marginal products (or their "competitive" rate), while other workers receive less, resulting in unemployment among the former and underemployment of the latter. Since the power and prestige of a union is measured by its accomplishments, the policy of "more" is not checked by the possibility of unemployment because only the employed among the membership control union policy. Disruption follows when unions cause inflation and unemployment.

Again the evidence is against the "Chicago School." The data are consistent in showing that unionism has had little influence on the wage structure among bargaining units. The following evidence supports our position: (1) The geographic wage structure in manufacturing industries changed very little in the period 1907-1946, and has actually increased much more rapidly in the South, which has much less unionism than the Non-south, during and since this period.[38] (2) The occupational wage structure has changed about the same way in each industry between regions.[39] (3) The wage structure by industries between 1923 and 1940 was more responsive to productivity and product market conditions than to changes in the degree of unionization.[40] Ross and Goldner maintain that "The strongest influences on wages seem to have operated throughout the economy rather than affecting individual industries differentially. Among the industries which were substantially unorganized in 1933, subsequent increases in earnings were associated with changes in the degree of organization. However, those which were already substantially organized in 1933 have lagged behind all other groups . . .. Our own belief is that unionization is a source of wage advantage, which operates most effectively . . . when large numbers of workers are being added to payrolls of an industry and when oligopoly profits are available to be lapped up . . .. Under conditions which have recently prevailed in the United States, unionization has thus been a necessary but not sufficient condition for larger-than-average increases in earnings."[41]

The conclusion, as regards the disruption of the wage structure between industries and regions, is that the weight of evidence is against the "Chicago School." The fact that the wage structure has not been distorted by unions per se, is due in part to the fact that unions have caused non-union

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38. "Trends in Regional Wage Differentials in Manufacturing, 1907-46," Monthly Labor Review, April 1948, pp. 371-77, and Hoover, Calvin B. & B. U. Ratchford, Economic Resources and Policies of the South, The Macmillan Co., New York, 1951, pp. 47 - 54.

39. Ober, Harry, "Occupational Wage Differentials, 1907-47," Monthly Labor Review, August 1948, pp. 127-34.

40. Dunlop, John T., "Productivity and the Wage Structure," in Income Employment and Public Policy, W. W. Norton, New York, 1948; Garbarino, Joseph, "A Theory of Interindustry Wage Structure Variation," Quarterly Journal of Economics, May 1950, pp. 282-305; and Ross, Arthur M. & William Goldner, "Forces Affecting the Interindustry Wage Structure," Quarterly Journal of Economics, May 1950, pp. 254-281.

41. Ibid., pp. 280-281.

wages to move in much the same direction as union wages, though this movement may be more or less than that which unions instigate. For example in September of 1950, the Textile Workers Union of America obtained a 10 percent wage increase in New England mills. The Union then prepared to ask for the same increase in the South, but one of the largest Southern mills, Burlington, immediately gave its workers an 8 percent increase, and most of the large unorganized Southern mills followed suit.

Of course it is not entirely impossible for the union to push wages up to such an extent that it would produce inflation and/or unemployment. Some people maintain that this is what has happened in the coal industry as a result of the United Mine Workers having pushed wages "too high," with a consequent increase in the price of coal, resulting in a substitution of other fuels, particularly oil, for coal. Perhaps this analysis is valid, but there have obviously been other factors in this decline in the use of coal, such as the convenience and cleanliness of oil, which render impossible any conclusive arguments on this matter.

Certainly the example of coal is not typical, and only serves to exemplify the economic limitations on a union's ability to raise wages, which strengthens the case against the "Chicago School." Other factors which limit the union's ability to raise wages are discussed by Lindblom himself: non-union competition, mechanization, inter-plant competition, problems of employment in marginal firms, self-employment, and inter-product.[42] It is to be noted, however, that these are merely limiting factors to a unions ability to raise wages, and should not be construed to mean that unions have

42. Lindblom, op. cit., pp. 67-124.

not and cannot raise wages, as some economists (Friedman) have contended. This only serves to indicate that the union leader, as a rule, will moderate his actions if he sees that they will threaten the existence of the union either through unemployment of membership or legislative reprisal. This alone mitigates against the conclusion that unions will destroy the present economy.

Collective bargaining has had an important influence upon the structure of wage rates, but it does not seem to have been in the direction of distorting them. On the contrary, it can be very plausibly argued that trade unions have corrected distortions, inter-regionally as well as inter-industrially. Unions have had the following effects on the structure of wages: (1) narrowed the regional wage differential, especially between the North and the South, (2) narrowed the differential between skilled and unskilled workers, and (3) established uniformity within industries, which is probably a factor making industry more competitive. These factors will be considered at greater length in the following chapter on industry-wide bargaining.

Besides claiming that the unions have distorted the structure of wages, the "Chicago School" attempts to show that unions also distort the general level of wages. This is ostensibly done by raising the general level of wages above the "competitive" level, producing unemployment and/or inflation.

Just what Lindblom and others mean by the "competitive level of wages" is not clear. Nor is it clear how union and pre-union wages compare with this competitive ideal. Presumably the mechanism would be as follows: unions raise wages above marginal productivity, which must cause either one or two things or both of them. In the first place, prices must rise to the point where price equals marginal productivity of labor plus the marginal productivity of other factors. The ability to raise prices will depend upon the elasticity of demand for the product. If the demand is relatively inelastic, entrepreneurs can raise prices without infringing upon the remuneration of other factors of production. This causes inflation.

In the second place, employers may either substitute other factors for labor, or transfer capital to other pursuits. Their ability to do the former will depend upon the elasticity of substitution of labor for other factors. The success of the latter policy will depend upon the mobility of the particular kind of capital, as well as the availability of investment opportunities. The results of these activities will be unemployment.

There are several objections to this line of reasoning. In the first place it assumes perfect competition in product and labor markets. The competitive level of wages and prices is envisaged as some definite realizable quantity, though Lindblom readily admits that this concept is not subject to statistical verification. As we have pointed out repeatedly in this study, there is a grave danger in confusing the world used for theoretical deductions with the one of reality. This is what the "Chicago School" has a tendency to do. The market for labor which existed before collective bargaining was in no sense a competitive market, as Dr. Kerr has shown.[43] The same objections applied earlier to the TNEC are therefore applicable here.

Another objection to the analysis of the "Chicago School" is that it fails to take into consideration the possibility that collective bargaining may stimulate managerial efficiency, and thus obviate the necessity for

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43. Kerr, Clark, "Labor Markets: Their Character and Consequences," American Economic Review, May 1950.

either price increases, substitution of capital for labor, or a flight of capital. Professor Sumner H. Slichter argues that union wage pressure will stimulate employers to find ways and means of reducing the input of labor per unit of output. Though this could conceivable mean a substitution of capital for labor, it does not necessarily follow that this course will be adopted.[44]

In support of Professor Slichter's position Dr. Ross maintains that, "Even if this conclusion be regarded as debatable, no convincing grounds for accepting the opposite view have been shown. Certainly the available statistics on productivity, which admittedly are spotty and difficult to interpret . . . indicate . . . that the gradual increase in output per man-hour, which was interrupted during and immediately after the war, was resumed about the beginning of 1947."[45] Therefore, the statistics at least partially support the view that unions, by increasing wages, might increase efficiency instead of causing unemployment and/or inflation.

We must also object to the normative implications of this particular phase of the arguments advanced by the "Chicago School." It must be realized that in the factor markets, perfect competition will "work," granted the various assumptions, only if land, labor and capital are in the "right" proportions. "Right", of course, is a relative concept. Much depends upon who is doing the deciding as to the "correct" proportions. Landlords would prefer much capital and labor relative to land; the capitalist, much labor and land relative to capital; the laborer, much capital and land relative to labor. Inherent in the competitive ideal is the assumption that "something"

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44. Slichter, Sumner H., The Challenge of Industrial Relations, Cornell University Press, Ithaca, N. Y., 1947, pp. 95-96.
45. Ross, Arthur M., "Collective Bargaining and Common Sense," Labor Law Journal, June 1951, p. 438.

maintains the factors in the "right" proportions. Labor, being the human factor, has reached the conclusion that the proportion of labor to land and capital is always going to be "too great." The supply of land is fixed, and the supply of capital is governed by economic factors. The supply of labor is neither governed by economic factors, nor fixed. The supply of labor is determined by a large number of factors, few of them economic, as India, China, and the South of the United States testify. Labor, then, being the result of caprice and passion, has rarely been in short supply. Trade unions are, at least originally, an attempt to correct the proportions of the factors of production more in favor of the worker. The subsistence level of wages may well be natural and just---and so may earthquakes, tornadoes, syphilis and the like---but the unions have decided to have no part of this realm of nature.

Another objection to the line of reasoning employed by the "Chicago School" is that they explicitly, as in the case of Lindblom, or implicitly, as in the case of Simons, Chamberlin, Knight and others, assume that unions have almost complete and absolute initiative in collective bargaining. They assume that the employer is powerless to prevent the union from pushing wages above marginal productivity. As Dr. Ross points out, "This is not in accord with experience and seems an absurd assumption."[46]

Another objection to the "Chicago School" is that no distinction is usually made between a wage increase in a firm or industry and a nation-wide wage increase. In the former case it is conceivable that unions could cause unemployment, as was indicated in the case of the United Mine Workers. But

46. Ibid., p. 439.

the question of a general wage increase, which is the subject at hand, presents an entirely different problem. The difficulty here is that a general wage increase contributes to income as well as to cost. The important consideration is whether the general wage increase causes an excess demand for money or for goods, and the proportion of labor to other costs in a particular industry, as well as in the economy. This would depend in turn primarily upon the effect of wage increases on expectations, savings, investments and consumption.

Though the question of the effects of general wage movements upon the economy is somewhat unsettled among economists, there seems to be a substantial area of agreement. In the first place, it is generally agreed that full employment can only be maintained if there is adequate effective demand for consumers goods. High wages are one effective way of assuring adequate effective demand. Unions can at least ensure that wages will keep pace with productivity.

Of course, it is also argued that unions cannot assure adequate effective demand in the United States because they represent only about twenty-five percent of the total labor force; the preponderate majority of total employment being comprised of farmers and unorganized workers. This argument overlooks several important considerations. In the first place, unions raise wages of unorganized as well as organized workers. In the second place, unions have played a prominent role in securing social legislation which stabilizes incomes and employment generally. And in the third place, high wages for industrial workers is an important necessity for high farm incomes. Of course, unions alone cannot produce and maintain full employment but, far from being a force primarily for unemployment as the "Chicago School" contends, they are much more a force for full employment and stability. If collective bargaining were prohibited, there can be little doubt that the task of maintaining consumer demand and full employment would be much more difficult to perform.

From the theoretical standpoint there is not much doubt that unions can produce inflation in a full-employment economy. Unless the general level of wages approximately keeps pace with increasing productivity of labor this may indeed be a result of collective bargaining by strong unions. In an economy characterized by substantial unemployment, no such fear need arise. Increasing wages can be expected to lead to increasing purchasing power which will lead to greater production and utilization of unemployed resources. Hence, productivity will probably more than off-set increasing wages..

There is no guarantee that unions will keep their demands within the limits of productivity when full employment has been reached, but what has been said, coupled with the union's realization as to its own interest in the long-run, indicates that mature unions, accepted as an integral part of society, could be expected to exercise restraint and moderation, especially when it is clearly to their advantage to do so. This question will be discussed at greater length in the concluding chapter of this study. A complete analysis cannot be given until we have examined the effects of industry-wide bargaining on the economy.

Are Unions Encroaching Upon Management Prerogatives ?

Another way in which unions are allegedly destroying the free enterprise system, according to the "Chicago School," is by encroaching upon management prerogatives. It is recognized that efficient management is essential to the effective operation of an enterprise economy, and it only seems natural that management should be apprehensive of any attempt by unions to encroach upon its primary function of economically operating the business enterprise.

Unions contend that any decision affecting wages, hours and working conditions falls within their province. They have accordingly aggravated management's fears that their prerogatives are being pirated. As Professor Ross indicated, "This fear is aggrevated by the fact that union leaders are unwilling to participate in drawing up any list of unqualified managerial prerogatives and occasionally indulge in ebullient statements to the effect that there is nothing sacred so far as they are concerned, for the reason that any managerial policy may conceivably have a bearing on wages, hours and working conditions."[47] Professor Niel W. Chamberlin says that, "At one time or another, in one industry or another, there is scarcely a function of management which has been impervious to union penetration."[48]

Despite these facts, Professor Ross contends that managerial authority is not facing usurpation by the unions. He offers two other facts as being more crucial than the apparent tendency for unions to encroach upon management functions. In the first place," . . . many employer concepts of shop administration have become widely accepted in union circles . . .. Most unions are striving to conform with the standards of business morality and fit themselves as effortlessly as possible into the enterprise system. In some respects they are in a position to discipline the labor force more effectively than is the employer." Secondly, " . . . participation of unions in fields broader than personnel administration has been with the consent and approval of management. . . . (and) have been generally welcomed by management as a means of handling a difficult competitive situation."[49]

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47. <u>Ibid</u>., p. 436.
48. Chamberlin, Niel W., <u>The Union Challenge to Management Control</u>, New York, 1948, p. 5.
49. Ross, <u>op</u>. <u>cit</u>., p. 437.

Beyond this, management has been largely free to pursue its more important policies of production methods, plant location, procurement, organizational structure, pricing and distribution. "There is no present indication that employers, particularly those in mass production industries at the center of the economy, will carelessly abdicate these functions. Failing abdication they can be held."[50] Pressure has always been exerted upon management from customers, suppliers, bankers and government agencies. The fact that the industrial environment has produced pressure from the union does not imply that management will topple and that we shall enter upon an era of syndicalism.

Is There Collusion Between Unions and Management ?

A word needs to be said here regarding the charge of the "Chicago School" that there is or will be collusion between unions and firms at the expense of the consumer. There is no evidence that this is, or is likely to become a prevalent practice. Though most of the studies of this question have been made in connection with industry-wide bargaining, where this practice would seem to be more easily perpetrated, in no important study can evidence be found to support the position of these critics. The evidence, as we shall see in our discussion of industry-wide bargaining in the next chapter, supports the view that there has been little or no collusion between employers and unions at the expense of the public.

Conclusions

In this chapter we have attempted to analize certain theories of the labor movement and ascertain wherein they conflicted to or conformed with

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50. Ross, loc. cit.

logic and reality. We saw that all of these theories agreed that trade unions were primarily devices for removing labor from competition; there was no such agreement, however, upon the institutional ultimates of the trade union movement, or the efficacy of these predicted ultimates. Hoxie and Perlman maintain that unions have no particular ideological propensities, but are primarily pragmatic---they utilize methods which have proved successful in obtaining as much from the present system as possible. Marx, the Webbs, Tannenbaum and the "Chicago School" disagree upon the methods by which unions will achieve their ultimate status in society, as well as the desirability of its achievement. The conclusions reached to this point lead us to agree with Perlman and Hoxie, but final judgment cannot be rendered on this point until we have considered industry-wide collective bargaining and its effect upon the economy.

The conclusion that we are compelled to draw from this chapter is that the fears of the "Chicago School" are largely unfounded. We have attempted to show that this was an attack upon unions per se as being monopolistic and therefore destructive of the competitive free enterprise system. In objecting to this approach we have endeavored to show that the term "monopoly" is a misnomer when applied to trade unions, and grows out of an illogical attempt to apply enterprise analysis to the union. The many differences between trade unions and business enterprise invalidate this procedure.

The larger question, however, concerns whether or not monopoloids, which we admit trade unions to be since they have some degree of control over supply, are detrimental to the competitive free enterprise system. The definition of the competitive free enterprise system, or rather the lack of it, is the source of much difficulty here. If by this the "Chicago School" means the atomistically competitive society of economic theory, then they are obviously wrong since no such society has ever existed. This is seen to be the same sort of fallacy as attempting to apply the perfectly competitive norms of theory to enterprise monopoloids. Specifically, this fallacy does not take cognizance of the fact that the atomistically competitive ideal is unattainable, and that any attempt to achieve such a society by making the present economy more atomistic would lead to graver consequences than those resulting from the imperfections which are currently observable in the United States.

We have called the critics of the trade unions the "Chicago School" because their ideas were promulgated by Henry C. Simons of the University of Chicago, and reached their intellectual fruition in the work of Charles A. Lindblom. Most of the general economists who contributed to The Impact of the Union are in fundamental agreement with Lindblom, as are many others, on the propositions that unions: (1) are monopolies, (2) use their monopoly power to push wages too high, causing distortions of the level and structure of wages, producing inflation, unemployment, disruption, or some combination of these, (3) encroach upon management prerogatives, and (4) form collusive agreements with employers at the expense of the consumer. The overall result is the destruction of the competitive free enterprise system and the establishment of some form of collectivism.

We have seen that the position of the "Chicago School" is both logically and practically untenable. In addition to the criticisms of their use of monopoly theory we have objected to these critics on the following grounds: (1) They project trade unions into the future along with their present policies. We have argued that the trade union's policies will change as its position in society becomes more secure. (2) We have also maintained that there is no conclusive evidence to support the position that trade unions have distorted the level and structure of wages; on the contrary, we have argued that unions have actually corrected distortions. (3) We have objected to the normative implications of the "Chicago School's" analysis. Since the labor supply is neither limited nor governed primarily by economic factors, labor has usually been in a disadvantageous ratio to capital and land. The contention that this is the situation that "ought" to prevail is unfounded. (4) We have maintained that managerial prerogatives are not necessarily in danger of falling before the onslaught of unionism. There is no evidence that management in the United States has been weakened either economically or politically by trade unionism, nor is the position that governments cannot be expected to prevent miscreantic trade union practices tenable. The argument that there is or will be employer-union collusion at the expense of the consumer will be treated more fully in the following chapter.

IV. Industry-wide Collective Bargaining

Need for Distinction in the Labor-Monopoly Issue

As we indicated in our concluding remarks of the preceeding chapter, the critics of unions rarely make the distinction between unions per se as being monopolistic and the practice of industry-wide collective bargaining. In many cases it is obvious that these writers think it unnecessary to make any such distinction since they deem all unions to be monopolistic and therefore undesirable. Some writers allude to the distinction but proceed to condemn unions per se as destroying the free enterprise system. For example Professor Chamberlin claims that "Most of the traditional arguments as to the weak bargaining power of labor seem to apply, if at all, within the firm, and the disparity they indicate would be corrected if the laborers within each single firm bargained as a group with their employer . . .. I see no case against collective bargaining per se within the firm as monopolistic. The employer is already a single unit, and for employees to become one through collective action can restore the balance . . ."[1] Professor Friedman concurs in this opinion.[2]

Professor Chamberlin's position is not so friendly to labor as this statement would indicate, however. His remarks must be tempered by the fact that he added, parenthetically, "if at all" to his above remarks, and by the fact that he would not allow the strike, or in any event would not allow

1. <u>Impact of the Union</u>, <u>op. cit.</u>, p. 179.
2. <u>Ibid.</u>, foornote p. 379.

the strikers to retain any claim to their jobs. It is also not clear whether Professor Chamberlin would allow these company unions to be affiliated with regional, national, or international labor organizations.

It is of the utmost importance that a distinction be made between unions per se as monopolistic and the question of whether or not industry-wide bargaining is monopolistic. This is particularly true in view of the fact that the above attacks were upon unions per se, usually without considering the difference between this problem and that of industry-wide collective bargaining.

Recent Attempts to Eliminate Industry-Wide Collective Bargaining

Recent events in the United States have given rise to fears on the part of many Americans that trade unions are becoming too powerful and therefore should be curbed. Attention has been centered on industry-wide collective bargaining since this form of bargaining has gained the most publicity and because an industry-wide strike inconveniences more people. For example, the United Mine Workers have struck almost every year since the war, with a consequent stoppage of coal flows from the mines. Commenting on this point Leo Wolman says, "Each time (the coal strike) has effectively cut off the coal supply of the country because the employers have refused to grant the union's demands. Each time the result has been a spreading paralysis of industry and trade. In the railroad industry we have had one national strike and the threat of another. In the automobile, and in the steel industry, not to speak of others, a wage and contract settlement with one important company has become, for all practical purposes, the settlement for all other companies, because the unions of the automobile and steel workers have the power to impose their terms on all employers, whether or not they have seriously bargained over them and arrived at them by voluntary agreement."[3]

Many observers feel that the fears expressed by Wolman and others have been exaggerated. For example Mr. David L. Cole, Director, Federal Mediation and Conciliation Service, expressed the belief before the Conference on Labor-Management and Commercial Arbitration in San Francisco, Wednesday, November 12, 1952, that all of the alleged "emergencies" which have occured since the end of World War II have been greatly exaggerated. He attributes this exaggeration to the wide-spread publicity given these disputes and to confusion as to the facts in the cases. He said that there had never been a critical shortage in any of the materials affected by these industrial disputes.

Whether these views are exaggerated or not, the important thing is that they have been attributed to industry-wide collective bargaining and are very likely to form the basis for federal legislation. Before we proceed with an analysis of industry-wide collective bargaining, therefore, let us first clarify several points that seem to have caused confusion in the heat of the debate over this type of collective bargaining.

Most important, it seems necessary to fix clearly in our minds what we mean by industry-wide collective bargaining. Following Frank C. Pierson, we may tentatively define industry-wide collective bargaining as the situation in which "negotiations are conducted through one body representing the workers and another body representing the employers within a given industry."[4] In the anthracite coal industry, for example, one contract covers all mines and workers in the industry. The circumstances surrounding the anthracite coal

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3. Wolman, op. cit., p. 7.
4. Pierson, Frank C., Multiple Employer Bargaining, Yale University Press, New Haven, 1948, p. 7.

industry are admirably suited to this type of bargaining: the industry is easily defined, the producers are concentrated in ten counties in Pennsylvania, nearly 80 percent of production is for household and other non-industrial uses of coal, the market is primarily in the Middle Atlantic and New England states, the ownership of the industry is highly concentrated, ". . . in 1937, it was reported that ten anthracite companies, usually associated with the same financial interests as the anthracite-carrying railroads, owned and leased or controlled 94.7 percent of the total recoverable tonnage."[5] Industry-wide collective bargaining has been practiced by the anthracite operators and UMW since 1903.

Clearly, such unusual cases as the anthracite coal industry would be difficult to find in America. For this reason the definition of industry-wide bargaining which was given above would be inapplicable for most industries, and a working definition to cover what is usually meant by industry-wide collective bargaining is needed. To fulfill this need Pierson proposes the following as a good working definition: "Bargaining is on an industry-wide basis when negotiations over one or more issues are conducted by two negotiating bodies, one of which on the workers' side represents, either by formal or informal authorization, a majority of all employees within the industry, or a majority of all employees in a particular category of work, and the other of which on the employers' side represents, either by formal or informal authorization, a majority of all firms and plants in the industry."[6] This definition would allow for the informal cases where industry-wide bargaining is in fact achieved through wage leadership, though

5. Ibid., p. 8.
6. Ibid., pp. 8-9.

all of the parties are not represented by a single contract.

Other multi-plant bargaining systems are company-wide bargaining, and regional and local area bargaining. Company-wide bargaining refers to the situation in which all or a majority of the employees in a company are covered by one contract. There are obvious cases, such as the telephone industry where company-wide and industry-wide bargaining are practically coincidental. Regional or local area bargaining refers to the situation in which a majority of the employees in an industry in a region or local area are covered, either formally or informally, by a single contract. There are many definitional problems which arise in an attempt to delimit any type of bargaining area, but for our purposes these definitions will suffice.

In 1947 it was estimated by the Bureau of Labor Statistics that some 2,085,500 workers were employed in firms covered by industry-wide bargaining. These workers were in eight industries: coal mining, elevator installation and repair, glass and glassware, installation of automatic sprinklers, pottery (including chinaware), railroads, stoves and wallpaper. Another 3,485,300 workers were in industries covered by region-wide collective bargaining. These industries were: canning and preserving food; dyeing and finishing textiles; finishing hosiery; inter-city trucking; leather tanning; longshoring; lumber; maritime; metal mining; non-ferrous metals and products (excluding jewelry and silverware); paper and pulp; shipbuilding; shoes, boots, cut stock and findings; and woolen and worsted textiles. Some twenty-eight industries were covered by city or local-area bargaining. These industries had a total of 12,662,000 workers. This gives a total of 18,232,800 workers in industries covered by multi-employer agreements.[7]

7. Ibid., pp. 48-51.

It is not clear whether those writers who argue against industry-wide bargaining mean all multi-employer agreements or not. It is difficult to determine from the contexts of their writings just what is intended. In the case of Chamberlin and Friedman we have established the fact that they would outlaw all but plant-wide bargaining.

The goal of multi-employer bargaining is to establish uniformity throughout the industry, region or area. The desire for uniformity is motivated by a desire to relieve the pressures felt by trade union leaders from invidious comparisons by their members with standards of other union members and non-union members, and to make it more difficult for rival unions to make inroads upon union membership.[8]

Until recently the desire for uniformity as expressed by collective bargaining on a multi-employer basis was not considered particularly detrimental to public welfare by most people. Wolman declares that "Only in the past few years has there been a noticeable shift in opinion. And with this shift in opinion the whole subject of bargaining by industry has come to be regarded as the single most important issue of labor relations and public policy toward the labor problem."[9]

Though there is no doubt some exaggeration in the above statement by Wolman, the problem of industry-wide and multi-employer bargaining has been a cause of great concern in recent years. The problem is seen as a part of the larger issue of the ability of unions to destroy the free-enterprise system. Pierson indicates this feeling when he says: "According to one widely held and influential view, union-employer dealings should wherever

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8. See Ross, A. M., Trade Union Wage Policy, op. cit., p. 74.
9. Wolman, op. cit., p. 9.

possible be kept on a local or individual plant basis. Under these circumstances, it is held, the principal benefits of unionism are realized without losing the advantages of more traditional competitive market conditions. It follows that the farther dealings are removed from a local bargaining basis, the greater the evils that arise. Since industry-wide bargaining is the very antithesis of local bargaining, it is therefore suspect from the start. Bargaining on this basis, in short, can only lead to unsatisfactory results because it violates the precepts of the free-market system."[10]

The growth of opinion against industry-wide bargaining is indicated by the pressure in the Congress of the United States in recent years to ban all industry-wide collective bargaining. The first session of the 80th Congress gave extended attention to this question and legislative proposals for dealing with it became the subject of considerable controversy. The Hartley Bill, which was the House bill embodied in the Labor-Management Relations Act of 1947, provided in section 9(f):

> A representative that has been designated or acts as the representative of employees of any employer shall be ineligible to be certified as the representative of employees of any competing employer, unless the employees of such employers whom the representative seeks to represent are regularly less than one hundred in number and the plants or other facilities of such employers at which the representative acts and seeks to act as such are less than fifty miles apart, but nothing in this paragraph shall prevent any representatives from being affiliated or associated, directly or through a federation, association, or parent organization with representatives of the employees of competing employers, if the collective bargaining, concerted activities, or terms of collective bargains or arrangements of such representatives are not subject, directly or indirectly, to common control or approval: Provided, that no such competing employers may engage in concerted activities, collective bargaining,

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10. Pierson, op. cit., p. 2.

> or arrangement in the formulation of labor policy for collective bargaining whereby any such competing employer is subject, directly or indirectly, to common control or approval of any other competing employer except in the instances mentioned above where the plants and facilities are less than fifty miles apart and the employees of such plants are regularly less than one hundred in number. 11

The intentions of the House are clearly stated in the following excerpts from House Report No. 245 on H. R. 3020:

> Probably the most important clause of section 9(f) is that which limits industry-wide bargaining . . . .. Arrangements by which competing employers combine, voluntarily or involuntarily, to bargain together, and arrangements by which great national and international labor monopolies dictate the terms upon which competing employers must operate seriously undermine our free competitive system. They undermine, also, the rights of the men in the mines and in the shops, who find their terms of employment determined not according to their circumstances and those of their employers but by arbitrary decisions of national and international officers.
>
> Such arrangements as these stifle competition among employers, and slow down the development of new techniques for producing more goods to sell at lower prices. They tend, in some cases, to reduce the resistance of employers to extravagant demands of the unions, and, in others, to holding down wages in plants where greater efficiency than prevails in others might, but for the group arrangements, result in better wages for the employees. The arrangements often are the foundation of shocking restraints of trade, such as we find in the construction trades and in parts of the clothing industry.
>
> It is no answer to all this to say that some employers like to combine together to bargain collectively. It is natural that they should dislike having their plants struck while the plants of employers who are competitors, or who ought to be, are operating. Most employers believe that the disadvantages of industry-wide bargaining outweigh its advantages for either employers or unions. Our concern is the public interest, and the public interest demands that monopolistic practices in collective bargaining come to an end. 12

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11. H. R. 3020, United States House of Representative, 80th Congress, 1st Session.

12. Report # 245 on H. R. 3020, United States House of Representatives, Committee on Education and Labor, 80th Congress, 1st Session, p. 61.

The House Committee on Education and Labor dealt with the problem in two ways. First of all, the bill forbade NLRB to certify one union as the bargaining agent for employees of two or more competing employers, and also forbade the employees of two or more competing employers to conspire together to strike at the same time. Secondly, the bill gave the President authority to seek injunctions against strikes that "imperil the public health and safety, and authorizes courts to issue injunctions in such cases without regard to the Norris-Laguardia Act."[13]

The House Minority Report had this to say about the prohibition of industry-wide bargaining:

> By placing heavy penalties upon industry-wide bargaining, this bill forces workers to compete with each other to see which can work for the lowest wages. It forces the fair-minded employer to cut his wages to the level of his worst sweat-shop competitor. It strikes from the hand of labor its most effective weapon---the right to strike . . .. It revives company unionism as a method whereby the employer may sit on both sides of the bargaining table. 14
>
> A provision more inconsistant with the policy of the bill . . ., to minimize industrial strife and to encourage peaceful settlement of labor disputes, could scarcely be imagined. 15

Arguing that an elimination of industry-wide bargaining would not eliminate strikes the minority report contended:

> On the contrary, conciliators have often found that when committees representing local unions have bogged down in their negotiations with their employers, representatives of the heads of international unions who have been sent in to assist in the settlement of disputes have succeeded in entering into agreements which the local committees were unable to reach. Many local committees are untrained or dominated by elements much more radical than in the international organizations. 16

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13. Ibid., p. 9.
14. Minority Report # 245 on H. R. 3020, U. States House of Representatives, Committee on Education and Labor, 80th Congress, 1st Session, p. 65.
15. Ibid., p. 86.
16. Ibid., p. 87.

Other arguments given by the minority report against eliminating industry-wide bargaining were that such a procedure: (1) would reduce purchasing power and contribute to economic depression; (2) would slow up collective bargaining since unions and employers would await the decision of other firms in order to prevent "whipsawing"; (3) would be costly since it required NLRB to provide a separate ballot for any craft, department, plant, trade, calling profession or other distinguishable groups within a proposed bargaining unit; and (4) would disrupt present bargaining procedures by requiring the board to reduce the bargaining group to the smallest ascertainable unit and by forbidding the board to consider the extent to which employees are now organized.[17]

A supplemental report was issued by Representative John F. Kennedy in which he set forth his objections to the bill:

> I affirm my basic faith in the system of private enterprise under which this Nation has flourished and successfully carried the burden of two great wars. But if this system is to work in our complex economic society, there must be a recognition by management and labor that the welfare of each is dependent ultimately upon the welfare of the other. If repressive and vindicative labor legislation is enacted at the behest of management, a tide of left-wing reaction will develop which may well destroy our existing business system. At the same time if labor continues to insist upon special privileges and unfair advantage in its relations with management, I have grave doubts as to the future of the trade union movement.[18]

This provision remained in the House bill as it passed the House, but was stricken from the Senate version.[19] The Senate Committee on Labor decided by a one vote margin not to outlaw industry-wide bargaining. The Committee

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17. *Ibid.*, pp. 87-89.
18. *Ibid.*, p. 113.
19. Senate Report # 105 on S1126, United States Senate, Committee on Labor and Public Welfare, 80th Congress, 1st Session.

expressed a desire "to restore to union locals autonomy in the exercise of their bargaining right, and thus check the trend toward nation-wide bargaining which threatens the public welfare by making possible the stoppage of an entire industry."[20] The Committee would accomplish this by amendments to "require the board to certify as bargaining agent unions containing only the employees of a single employer, or of different employers in the same metropolitan district or county, thus preventing the certification of a national or international union."[21] The Committee did not express a desire to prohibit certified unions from affiliating with a national or international union, but would have prevented NLRB from treating industry-wide employers associations as single employers, and the employer unit becomes the largest unit permitted for collective bargaining purposes. It further advocated that it become an unfair labor practice for international or national unions to coerce locals to sign or not to sign a contract. This would not have outlawed industry-wide bargaining but would have allowed locals to withdraw from the agreement if they so desired.

The Committee thought that the above amendments would prevent hundreds of strikes in which the locals were ready to reach an agreement with the employer but were prevented from doing so by a national union requirement that agreements could not be reached accepting wages below a specified amount. The United States Steel Company case was cited in which it was claimed that the national union had forbidden a settlement for less than $2.00 by the locals until the national had reached an agreement with the United States Steel Company.

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20. Ibid.
21. Ibid.

The proposed amendments would have been as follows:

> Section 2(2) would read "Provided, that for the purposes section 9(b) hereof, the term 'employer' shall not include a group of employers except where such employers (in the same metropolitan district or county) have voluntarily associated themselves together for the purposes of collective bargaining." 22
>
> Section 2(4) would have deleted "The term'representative' includes any individual or labor organization," and added "The term 'representatives' whether used in the singular or plural means any individual or a labor organization irrespective of whether or not it is a constituent unit of or an affiliate of an organization, national or international in scope, composed solely of employees of one employer, or of employees employed in the same metropolitan district or county by different employees." 23
>
> Section 8(b)6 would have added an amendment making it an unfair labor practice for the employers to coerce a local union to obey the dictates of a national or international union. 24

Senator H. Alexander Smith says of these proposed amendments: "I approve of this amendment because it leaves the issue of industry-wide bargaining to the voluntary agreement of individual employers and their employees. The amendment does not actually prohibit industry-wide bargaining. I am opposed at this time to any blanket prohibition of industry-wide bargaining because I feel the matter needs substantially more study before we adopt a national policy."[25]

The Committee thought that the above amendments would prevent hundreds of strikes, as we have seen, but the Senate Minority Report # 105 on S1126 declared that "Provisions specifically prohibiting area-wide and industry-wide collective bargaining were rejected by the committee for inclusion in the bill as reported."[26] This report declared, however, that some of the

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22. Ibid., p. 4. (The parentheses denote the amendment)
23. Ibid., p. 51.
24. Ibid., p. 52.
25. Ibid., p. 56.
26. Minority Report # 105 on S1126, United States Senate, Committee on Labor and Public Welfare, 80th Congress, 1st Session, p. 6.

committee planned to reinstate this provision.

The minority report expressed the following objections to a provision for the prohibition of industry-wide bargaining: (1) Since some 4,000,000 workers were covered by contracts with more than one employer a ban would disrupt existing relations, and would destroy the uniformity which exists between these workers. (2) Industry-wide collective bargaining is the logical development of present-day industrial organization. (3) Any attempt to ban industry-wide bargaining would deny the employers the same protection as was given unions. Almon E. Roth, President of the National Federation of American Shipping warned the committee that a ban against industry-wide bargaining would result in "a divirsity of wage rates and working conditions among ships operated from the same coast, plying between the same ports, tying at the same docks, and employing, in turn, the same men."[27] It was claimed that such a condition leads to the playing off of one steamship company against another by the unions, to extreme labor unrest, and eventually to the disruption of steamship operation. Substantially the same fear was expressed by Vincent P. Ahearn of the National Sand and Gravel Association. (4) Multiple-employer bargaining saves time, achieves industrial peace by one step rather than many, is more equitable, prevents waste, gives employers specialization in collective bargaining, prevents wage undercutting, and is more efficient, if the firm is multi-plant organization. (5) A prohibition of industry-wide bargaining would not prevent strikes, because the real cause of strikes is the employer's refusal to accept the unions demands. (6) Such a prohibition would not allow the

27. Ibid.

international or national union to intercede in strikes and use its influence for moderation.

The Taft-Hartley Act as passed contained none of the proposed Senate and House prohibitions of industry-wide collective bargaining. These prohibitions had been passed by a substantial majority in the House, and the Senate version, sponsored by Senator Ball, was rejected in the Senate by a majority of one vote. It can be assumed, however, that this question has not been settled. The tremendous support given to the opponents of industry-wide collective bargaining indicated that now, with a Republican victory in the 1952 Congressional and Presidential elections, the question of outlawing industry-wide collective bargaining will again arise and will stand a very good chance of being enacted into law. Of course, union opposition to the Taft-Hartley law has conceivably changed the minds of some congressmen on this matter and this could conceivably prevent a prohibition of industry-wide bargaining whether or not the Taft-Hartley Act is amended.

The Case Against Industry-Wide Bargaining

Since industry-wide collective bargaining has played such a large part in public debate on trade unions, let us examine the issue in detail. We shall first look at the case against industry-wide collective bargaining. We shall chose John V. Van Sickle and Leo Wolman as representative critics of this type of bargaining.[28]

Van Sickle begins his analysis with the assertion that the arguments in favor of industry-wide collective bargaining are based on the obviously fallacious reasoning that labor can be protected from the forces of competition

28. Van Sickle, John V., Industry-Wide Bargaining and the Public Interest, New York: American Enterprise Association, National Economic Problems Series # 425, 1947 and Wolman, Leo, op. cit.

while the system as a whole is kept competitive. In his opinion, the general adoption of industry-wide bargaining makes for manopoly capitalism which is seen as a move along the slippery road to socialism.

Van Sickle presents the following arguments against industry-wide bargaining: 1. Industry-wide bargaining reduces wages as a whole and increases wage inequalities. It is contended that uniform wage rates between large and small cities would reduce industrial expansion in the latter. Stopping expansion in these small communities by forcing factories there to pay wages above the prevailing rate in these communities blocks price reductions, reduces the total number of jobs in the industry, and reduces the number of better paying jobs in the smaller communities---since the better paying jobs are presumably in the expanding industry which has been halted---and piles up the numbers competing for the lower paying jobs available in these communities. By this process the better jobs in terms of available alternatives are destroyed in the places and industries in which they are needed.

2. Industry-wide collective bargaining destroys purchasing power. Because of the above reasoning, Van Sickle contends that industry-wide bargaining, by pushing up wages in smaller plants and communities, reduces the number of well-paid jobs and hence destroys purchasing power at the precise points where it is desirable that purchasing power be augmented. The availability of labor at lower rates in smaller communities is both an evidence of the relative lack of employment opportunities and an incentive for the creation of real purchasing power through investment of funds in new and expanding industries in these communities. The dispersion of purchasing power to small communities would increase the number of higher paying jobs where they are needed most, and would make it possible to

provide more goods at lower prices and thus increase the real purchasing power of the entire economy.

3. Industry-wide bargaining is detrimental to small business and is an impediment to the establishment of new enterprises. New enterprises are uaually hampered by lack of sufficient capital. In many cases these new enterprises require a great deal of faith among the promoters, as is exemplified by the high mortality rate among young firms. To require these firms to meet the standards of old and well established ones from the very beginning would be unfair to the former and would produce a high death and low birth rate among them. When bargaining is on a plant basis it is easier for the workers to understand the employer's position because they know him and his problems, and because they can look forward to advancing with the business if it succeeds. It is difficult to conceive of a more effective way of discouraging new ventures and cutting down the number of small businesses than to force an industry into a standardized wage pattern. This, however, is exactly what industry-wide bargaining does.

4. Industry-wide collective bargaining promotes monopoly. Competition is what keeps big and established businesses verile and progressive. It is the ever-present threat from small businesses that aim to grow bigger and from the new ventures that are continuously springing up which provides forces important to this competition. Industry-wide collective bargaining would eliminate this competitive factor in favor of the larger well-established firms. In the long-run this method of bargaining results in complete monopoly.

5. Industry-wide collective bargaining promotes cartelization. The danger that industry-wide collective bargaining may lead to state socialism is enhanced because of the fact that this type of bargaining requires a

fundamental change in the organization of American business. Enterprises are less well organized today for collective bargaining purposes than is the labor movement. If industry-wide collective bargaining becomes general the employers within the industry will be obliged to form associations for joint bargaining, as in England.

Industrial associations of employers, with powers of coercion, is simply another form of cartelization. It is believed, by Van Sickle, that the history of cartelization exempliefies the contention that government cannot safely leave the bargaining process between employees organizations and the cartels to the parties since there will be collusion at the expense of the public.

Leo Wolman presents the following criticisms of industry-wide collective bargaining: 1. National unions restrict competition and promote monopoly. The national union is an istrument ideally suited for promoting monopoly. The avowed purpose of national unions is to reduce competition in everything that may be considered wages, hours, or conditions of work. The avowed objective of the labor movement is to raise all standards of pay and working condition, and to ensure that no one falls behind the leader of the industry. The main objective of the national union, therefore, is to remove all labor from the influence of competition.

2. Industry-wide collective bargaining will reduce employment during depressed phases of the business cycle. Wolman claims that in the steel and automobile industries, long standing wage differentials in favor of plants situated in small communities and rural areas, and of small and new businesses, have been eliminated. These companies now have wage rates as high or higher than those paid in large urban industrial centers. Although the smaller companies in rural areas have not been forced to concede the many fringe

items which characterize the firms in larger metropolitan areas, the process of attrition is inexorable and the lag between regions and types of business is steadily narrowing. He believes that when inflation comes to an end, as it must, these policies of national unionism and national bargaining will shrink the total volume of employment and divert to the larger industrial centers a good deal of what employment is left.

3. Industry-wide collective bargaining produces collusion between the employer and the union at the expense of the consumer. With this type of collective bargaining the employer will be more willing to grant concessions because all firms make them simultaneously and because labor concessions can forthwith be translated into higher prices which are also made simultaneously by all firms in the industry. The public is exploited in this process, and competition is further impaired, since under such arrangements, employer's associations join the unions in fixing costs and prices and lose much of the interest that competing businesses have in keeping their costs and prices down.

Advantages of Industry-Wide Collective Bargaining

The representative advocate of industry-wide collective bargaining chosen for this study is Walter P. Reuther.[29] Reuther presents the following arguments in favor of this type of bargaining: 1. Industry-wide bargaining will eliminate wage differentials and inequalities. The wage agreement, with the aid of job evaluation, should establish the pattern of wages for each industry subdivision by job classification in keeping with the master wage pattern for the entire industry. This, coupled with the application of the

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29. Reuther, Walter P., Wage Stabilization and Post War Security, United Automobile Workers, 1943.

principle of equal pay for equal work without regard to products being manufactured or geographical location of the plant would eliminate wage differentials and inequalities.

2. Industry-wide collective bargaining will simplify wage problems. Under a program of industry-wide wage stabilization, a rate on a new job classification would be established in keeping with the master wage pattern through job evaluation. Such a system of job evaluation would constitute a scientific yardstick by which wage rates could be established on a job, giving proper consideration to job content factors such as skill, accuracy, responsibility, physical effort and fatigue.

3. Industry-wide collective bargaining reduces labor turnover. Industry-wide wage equalities would contribute greatly to the stabilization of employment and would materially reduce the present high rate of labor turnover which results when workers are forced to continually consider the possibility of getting a higher wage for the same job in some other firm.

4. Industry-wide collective bargaining increases labor productivity. An industry-wide wage pattern based on equal pay for equal work, would remove a deep and justified source of labor unrest. It would boost labor morale and increase labor productivity. It would facilitate the mobility and proper allocation of the labor supply, and it would put an end to unauthorized strikes.

We might also add here the arguments in favor of industry-wide bargaining presented by the Minority Report of the Senate Committee on Labor and Public Welfare discussed earlier, namely, that industry-wide collective bargaining increases the bargaining power of employers and leads to greater efficiency through the use of experts, and reduces the number of strikes since the national and international union officials may be expected to exercise moderating influences.

Conclusions

We may summarize the principle arguments presented by the critics of industry-wide collective bargaining as follows: 1) it produces monopoly and collusion; 2) it discriminates against and hampers the development of small communites and new enterprises, especially in rural areas; 3) it creates unemployment; 4) it reduces wages as a whole and destroys purchasing power; and 5) it fails to consider local differences.

On the question of monopoly, most of our conclusions from the preceeding chapter are applicable here, with the modification that the degree of monopoloidal power exercised by both employers and unions is possibly greater under industry-wide collective bargaining. Our main criticism of this attack upon industry-wide bargaining is that it assumes that perfect competition would exist in the absence of the union movement, which is illogical and unfounded.

In fact, it can be argued that industry-wide bargaining is actually conducive to competition, rather than vice versa. By striving to achieve uniform wage rates, industry-wide collective bargaining would produce one of the essentials of the competitive analysis---the "law of one price." If wages are uniform within an industry, employers can turn to competition in other matters without the fear that some employers will have an unfair advantage by dint of their ability to pay lower wages.

Since Van Sickle and Wolman's criticisms of industry-wide bargaining are very similar we shall comment upon them jointly. First of all, it is to be noticed that these critics of industry-wide bargaining have argued from certain unreal assumptions. In the first place it is assumed, apparently at least, that industry-wide bargaining is forced upon all firms in an industry. From reading these analyses one would believe that there is a bill before congress which would force unions and employers to bargain collectively on an industry-wide basis. This view fails to consider that industry-wide bargaining has been a natural development in certain industries, and that in almost no industry has every firm been organized. New firms and small communities are usually unorganized. If the union thought that it would cause considerable unemployment among its membership by taking in small plants in isolated communities, it can be assumed that they would not go to the expense and trouble to organize these plants. This conclusion is trengthened by the fact that, as will be seen later, the union does not get as much as it can from every employer in an industry-wide agreement. Since the wage rate is to be uniform, the union must of necessity set that rate at or near the level where the weakest employers can stay in business. Therefore, it would be to their advantage to leave these smaller and weaker firms unorganized. I think experience has upheld this conclusion. Unions have found it very difficult and undesirable to organize small, isolated plants in rural communities. Other reasons for this are that it is more expensive to contact and organize the workers in many small shops, the workers in smaller shops feel a closer affinity for their employers, etc.

Another objection to the line of reasoning employed by Van Sickle and Wolman in their criticisms of industry-wide bargaining is that they assume that the motivation behind business location is wage rates. They contend that if wage rates are raised in smaller communities---which, as we have seen, is in itself highly doubtful---the expansion of industries there will cease. Labor factors, especially wage rates, are not a very important consideration in the movement of industry into the South. Markets and the availability of raw materials are much more important.

It is usually the "old established firms" (which Van Sickle and Wolman contend have the unfair advantages in industry-wide bargaining) that actually establish the new firms in the South, or which expand old plants in that area. A lack of sufficient local capital is the most important reason for the South being undeveloped. Most of the necessary capital can come to the region from only one source---those who have it--and this is precisely the old established firms in the more developed regions. It is difficult to see, therefore, how industry-wide collective bargaining discriminates against the branch plant of an old established company. It can conceivably discriminate against the region in which the branch is to be established. This would be true if the sole reason for the establishment of the branch was to take advantage of wage differentials, or to avoid unions. There has been no evidence to date to support the position that industries do have such a motive in mind when they establish plants. We might also add that industry-wide bargaining is possible without union organizations in every plant in the industry, as was brought out in our definition of this type of bargaining. Wages have a tendencey to follow union rates in organized as well as unorganized areas. This being true, firms could, for a time at least, take advantage of the lack of unionism in an area and establish branches there. This would still be industry-wide bargaining, for all practical purposes, if wages in the branch plants in the underdeveloped area followed wages of organized plants elsewhere.

This has in no way been a deterrent to industrialization of the South. If it is true, as all evidence seems to indicate, that the greatest inducements to the establishment of branch plants in the South, as well as the actual movement of operations to this region, are markets and raw materials, then industry-wide bargaining would actually be an incentive to further industrialization. The union would therefore, by increasing wages and purchasing power, have more to do with the advancement of the region than with its retardation.

As to the level of wages under industry-wide collective bargaining, it is felt that they will actually be lower than in the case of individual bargaining where unions were free to extract the maximum possible wage from each employer. In the situation where unions are free to "whipsaw," wages would obviously be above the level which would exist if they were forced to establish the rate which the poorest firm in the industry could pay. On this point Kerr and Fisher contend that "the union accepts the lowest level any employer can afford."[30]

It is also believed that industry-wide collective bargaining produces greater cyclical stability than would be the case under individual plant bargaining. Unions with industry-wide contracts can be expected to resist wage reductions until they have become widespread in other industries. They would be strengthened in this position by the fact that their wages are not as high as they might be under plant-wide bargaining. It would also seem logical to contend that this situation would produce stability in other industries. Conversely, prudence would lead us to assume that wages would, during upswings in the cycle, lag behind in industries where industry-wide bargaining was practiced. This would be true because they would not have fallen as much in these industries and because industry-wide bargaining would give employers more bargaining power.

Kerr and Fisher support these conclusions, when they say that "Regard-

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30. Kerr, Clark, and Lloyd H. Fisher, "Multiple-Employer Bargaining: The San Francisco Experience," in Insights into Labor Issues, Richard A. Lester and Joseph Shister, eds., The Macmillan Co., New York, 1948, p. 48.

less of the factual evidence, it seems likely that wage changes both upward and downward would be delayed and reduced by the master agreement, as compared with plant by plant bargaining or situations where no bargaining exists at all."[31] This view is also supported by Lester and Robie.[32]

Thus, it is felt that, far from being a force for unemployment and instability, industry-wide collective bargaining is much more a force for full employment and stability.

Nor is there any evidence to support the contention that industry-wide collective bargaining produces collusive action between either employers in an association or between the association and the union. Lester and Robie state that, "Monopolistic or collusive practices with regard to wages or economic change have not characterized any of the seven industries. Instead the elimination of wage cutting has tended to stress efficiency as the most important factor in competition."[33] Kerr and Fisher contend that "This association type of collective bargaining has not generally resulted in collusive action against the consumer."[34]

It is believed, therefore, that the critics of industry-wide collective bargaining are not supported by the evidence. It is also believed that industry wide collective bargaining, in conditions conducive to it, is advantageous to all concerned---unions, management, and the public. The outstanding advantage from the union's standpoint is the institutional security which it provides against the apathy of workers, the hostility of employers, and the inroads of rival organizations. The chief advantages from the point of view of entrepreneurs is the substantial equality in wage scales,

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31. Ibid., p. 52.
32. Lester, R. E., and E. A. Robie, Wages Under National and Regional Collective Bargaining, Industrial Relations Section, Research Report Series # 73, Princeton University Press, Princeton, 1946, p. 95.
33. Ibid., p. 94.
34. Kerr and Fisher, op. cit., p. 59.

stabilization of costs to the industry, elimination of pace-setting by a "wage leader" or "whipsawing" by the union, the greater certainty of wage costs, and the removal of wage differentials based on differences in labor market conditions. The public benefits from a reduction in labor strife, the stability of wages and employment, and greater production.

In conclusion, it should be noted that we do not mean to imply that industry-wide bargaining should be forced upon the economy by legislation, as the critics of this procedure seem to assume. Industry-wide collective bargaining is seen to be a natural development designed to follow product market structures. In industries where firms are highly concentrated geographically, where the product produced is allocated to a common type of market, where there are not too many firms in the industry, and where the production methods and procedures are quite similar between the firms in the industry, this type of collective bargaining would seem most advantageous. In other industries, geographic dispersion and great dissimilarities between firms would render plant-wide or other bargaining areas more advantageous. It is felt that, left to themselves, the parties in collective bargaining would adopt the most advantageous system suitable to their particular needs. Any attempt to interfere with the pattern established by the parties on their own volition can but lead to disruption and maladjustments in the collective bargaining process. This is particularly true in view of the number of workers now covered by multi-employer agreements.

This is seen as another application of the principle of relativity which was discussed earlier. It is of the utmost importance to consider every procedure and principle relative to time, place and circumstances. This is nowhere more applicable than in the realm of collective bargaining. Blanket condemnations of any particular collective bargaining procedure are likely to be fallacious, and in the next chapter we shall attempt to show that it is just as fallacious to claim that any particular collective bargaining procedure has universal applicability.

It is quite possible, for example, to allow local unions to bargain over local conditions and to have wages settled on an industry-wide basis. Usually in industry-wide bargaining their is a single issue---how much shall wages be raised across-the-board ? This is a combination of industry-wide and local bargaining, which meets the most valid criticism raised against industry-wide collective bargaining, namely, that it doesn't consider differences in local conditions.

V. Summary and Conclusions

We have attempted to show that unions, as well as other monopoloidal forms, are natural developments of our interdependent, mass production, and highly uncertain economy. They are movements to introduce greater security and certainty by controlling as many of the unpredictable variables as possible. The most important variable being the supply of the particular product or factor. Thus the corporation, as well as the union is a protest against a highly competitive economy. The corporation developed first, along with the merger, consolidation and other devices designed to limit competition in product and factor markets.

The trade union developed as a protest against competition in the labor market and against the business enterprise which held monopoloidal powers in the product market and monopsony powers in the factor market. There is almost universal agreement on the fact that unions primarily attempt to remove labor from the realm of competition.

Unions saw that competition in the economic theorists sense would operate under conditions detrimental to the worker. The supply of labor is not governed by economic factors. It is subject to a host of influences such as religion, passion, caprice or ignorance. For this reason there has, except for extraordinary circumstances, been a surplus of labor relative to land and capital.

In this situation, the competitive price mechanism requires that wages vary directly with demand and inversely with supply, which is obviously disadvantageous to labor. It is thought by many that economic justice is achieved in this manner. The wage established by demand and supply is said to be a natural price, but unions have decided to have nothing to do with this realm of nature. Unions have altered the ratio between land, capital and labor, giving the latter a more advantageous position as regards its claim from the product jointly produced by all three.

The question, of course, arises as to what is the "right" ratio between the factors of production. This question depends upon which factor's owner occupies the dominant position in the economy and therefore decides what is "right." The economy, however, should exercise some degree of control over the ability of each factor to continually increase its share of the national product. The atomistically competitive limitation obviously is not the answer so far as labor is concerned. Let us attempt another.

Each individual is at the same time a factor of production and a director of production. As a factor he engages in the productive process and receives therefrom a remuneration. With this income the individual decides the products to be produced and in what ratio. He casts his dollar vote for a product which he has chosen, or has been convinced to choose.

Now this process of consumer control is just as valid, though theoretically less perfect, in an economy characterized by monopoloids as it is in one characterized by atomistic competition. No monopoloid can either force people to purchase its product or long continue to produce one for which there are no buyers. In our economy, admittedly characterized by monopoloids, the market mechanism still performs its functions.

Let us suppose that individual producer-consumers are not grouped together and therefore do not control a very large proportion of the total supply of the service which they sell. In this situation, their rewards will vary with the forces of demand and supply. In the case of labor, as we have seen, this has historically produced a situation unfavorable to the worker. It follows that our worker-producer-consumer will not have many money votes with which to command the productive processes. His is a highly insecure and uncertain position unless he has some monopoloidal skill or capacity.

The economy, however, must also suffer because it is highly interdependent and will therefore fluctuate with guesses and hunches concerning the ability of our worker-producer-consumer to purchase goods. The result is insecurity, unemployment and waste for the entire economy.

The worker-producer-consumer thus decides to be less individualistic. He realizes that he and others like him are necessary components of the productive process---both as producers and consumers. He therefore forms a union with others of similar interests. They decide that the productive processes will either operate with all of them or none of them. The power of this union is attributable to the fact that production cannot be undertaken without them. The result is more security for this particular group.

There are other individuals, however, who, for one reason or another, are imbued with strong individualistic ideals, and who maintain a fervent faith in competition. Some of them have monopoloidal capacities, and are enabled to obtain more from the system; others do not and must continue to be subjected to the uncertainties of competition. These people are at the mercy of the organized groups who have some control over the amount of the product given them by the economy for their contribution to it.

This illustrates the chief danger seen in the present partially organized economy. Some unorganized groups have no assurance that they will share proportionately in the national product since they are economically and politically powerless. Due to the interdependent nature of modern economies, however, it is necessary for all major sectors to share in increased productivity before the entire economy can maintain lasting prosperity. The penury of any important group can but lead to depression and economic instability for the others. It is self-evident, for example, that in a full employment economy no group can increase its proportionate share of the national product, unless some other group loses. If the organized groups gain it will be at the expense of the unorganized. Mature collective bargaining, therefore, cannot be achieved until unorganized elements form unions to protect their interests.

Unless and until all of the major sectors of the economy are organized, it should be the function of government to protect the interests of weaker elements, and, in so doing, promote the general welfare. This probably will not be done, however, since democratically constituted governments must respond to the dictates of the most politically potent groups. The solution must, therefore, be found in the organization of the weaker groups. This will probably occur only when they realize that their interests will not be otherwise protected.

Is not this ultimate view of society the same as that seen by the "Chicago School ?" In certain respects it is, but in other important particulars it is not. In the first place, it is obvious that the reasoning by which this order was deduced is not deluded by a belief in some unachievable competitive order. In the second place, the society that we have predicted for the future is not "syndicalistic" in the usual sense of the word, nor is it socialistic or communistic.

Governments will continue to operate on a larger scale, because there will be more and more things that the people cannot best do for themselves, but this does not imply that governments will take over industry or that unions will take over the government. It simply means that bargaining over the national product will be conducted on a bargaining basis by groups capable of protecting their interests. It is highly improbable that any of the major groups---professionals, farmers, business men, and workers---will capitulate before the others, but that each will be limited by market considerations. When this position is reached we shall have attained Professor Fisher's "mature collective bargaining." Progress towards this goal could be impeded, if we attempted to establish an atomistically competitive order by eliminating trade unions and industrial monopoloids. We can but cause trade unions to take a less "mature" view of society if we attempt to destroy their "prerogatives."