Labor monopoly
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IMPACT OF UNION MONOPOLY PRESSURES ON WAGE-PRICE RELATIONSHIPS AND INFLATION

Opinions of Educators, Economists and others.

" We are certainly faced here with the harmful consequences of monopoly power. The reasonable norm (guide for rate of increases in wages) would be that of gearing average wage trends approximately to average output-per-man-hour trends in the economy as a whole. On the realistic assumption this would be a rise in wages at about 2 per cent a year in the long run"

Professor William F. Fellner of Yale
University - letter published in New York Times
March 25, 1957

"General conclusions are that comulative wage-price spirals destroy economic stability, and that the task of maintaining stable prosperity will be greatly assisted if a way can be found to combine a steady and gradual upward trend in money wage rates, corresponding to the average over-all growth in productivity, with a considerable degree of flexibility in the prices of particular goods. It is all too evident that the actual behavior of wages and prices does not correspond to this ideal. The tendency of union wages to rise excessively during periods of business expansion, and the tendency of many prices to remain fixed, or decline only sluggishly, in periods of business contraction are obstacles to economic stability."

Despres, Hart, Friedman, Samuelson and Wallace
"The Problem of Economic Instability"
American Economic Review, Sept. 1950

"The recession, however, has helped the public see more clearly than ever that rising wages are a principal cause of rising prices. ...Wages have continued to rise throughout the recession in the face of falling demand for labor and goods. Thus the recession has given the public a clearer picture than ever of the responsibility of rising wages for rising prices. The more plainly the public sees the relationship between wages and prices, the more carefully it will appraise the demands of the unions. The public is obviously getting tired of the stiff annual rounds of wage increases that far exceed the contribution of the workers to productivity."

Sumner H. Slichter
"The Financial Condition of the United States"
Commercial and Financial Chronicle, May 1, 1958

"...none of the great "captains of industry" of previous generations-- the Rockefellers, the Morgans, the Carnegies, the Hills, or the Harrimans-- possessed as great power over the industries of the country as that held by the coal miners' union, the steel workers', or some of the unions in transportation."

"...There are enough examples of ruthless dictators among union heads, enough strikes for the purpose of coercing the government, enough instances of aggressive pursuit of narrow special interests by unions to show that trade unions cannot necessarily be counted upon to be instruments of freedom. Friends of freedom, both inside the labor movement and outside, have no time to lose in bringing about a development of both union practices and public policies to take account of the new power and responsibilities of trade unions."

"...So rapid and recent has been the shift of power (to the labor movement) that many employers and workers do not yet realize what has happened. They still regard trade unions as underdogs. They do not realize that the rise of trade unions confronts the community with the old problem of controlling great concentrations of economic power and of seeing that this power is used with due regard to the public interest."

Sumner H. Slichter
Trade Unions in a Free Society - 1948
Harvard University Press, Cambridge, Mass.

"It is not merely, therefore, that labor unions are exempted from the provisions of the statutes against combinations and agreements in restraint of trade. They may actively interfere with trade and commerce with immunity from what is often the only effective remedy."

"With the foregoing history of legal immunities and privileges in mind, we may compare the substantially general privileges and immunities of labor unions and their members and officials to commit wrongs to person and property, to interfere with the use of highways, to break contracts, to deprive individuals of the means of earning a livelihood, to control the activities of the individual workers and their local organizations by national organizations centrally and arbitrarily administered beyond the reach of state laws, and to misuse trust funds - things which no one else can do with impunity. The labor leader and labor union now stand where the king and government and land owner and charity and husband and father stood at common law."

"As organized in local voluntary societies, governed by national voluntary associations, the trade unions are strictly operated by oligarchies. It will be enough to quote the description of the mode of organization by a sympathetic writer: 'The governing body is the annual convention to which the locals send delegates in proportion to their strength. Between conventions the elected officers, and elective council and an appointed staff, manage the international. Although democratic procedures have been written into the constitutions and by-laws, some internationals are dominated by a relatively small body of officers who have built up a personal following and control the committees and other machinery of the annual convention.' There is centralized power and diffused legal responsibility, amounting to irresponsibility."

Roscoe Pound
Legal Immunities of Labor Unions
American Enterprise Association, Inc.
Washington, D. C. - May 1957.

"It (the labor movement) is protected by law and fortified by strength. It is one of the most dominating, economic, political and social institutions in the nation. It is beyond the capability of employer to destroy it, even if they so desired or attempted. And the day of attempts by employers to destroy unions as such seem long past; 'union busting' exists today largely as a propaganda term. For the great majority of employers, labor unions and the collective bargaining process are established facts of economic life."

Selwyn H. Torff - Collective Bargaining
McGraw-Hill, New York 1953.

<u>The ABC's of Unemployment</u> - "Congress is concerned today about unemployment. It is trying to decide between two things: A reduction in taxes or increased spending in public works. But this is not the major issue. Unemployment today is the result of lowered consumer demand. Consumer demand is lower because of resistance to higher prices. Prices are higher because wages have gone up more than productivity. Wages have outpaced productivity because of union monopoly. Congress has created the union monopoly. So what we have today is unemployment created through excessive wage gains obtained by union monopoly. Instead of facing up to this directly, the Congress is thinking about ways to pump more money into the economic system. Whichever way is selected, the result is the same: deficit financing and more inflation. Thus the real decision of Congress is a choice between two courses of action:

1. Eliminate union monopoly so that wages may be set by true collective bargaining; or
2. Preserve union monopoly at the cost of continued inflation and the risk of national bankruptcy."

Editorial in News Leader, reprinted from
Economic Council Letter of May 1, 1958

"Long ago, William Z. Foster, head of the American communists, wrote: 'American society is headed to communism through an intermediary state of socialism which would be operated on the basis of planned economy.' The outstanding advocates and promoters of a planned economy today are the monopolistic, politically powerful leaders of organized labor."...

"Today the greatest concentrations of political and economic power in the United States of America are found--not in the overregulated, over-criticized, over-investigated, and over-taxed business corporations--and certainly not in their hag-ridden, brow-beaten, publicity-fearful managers. The greatest concentration of political and economic power are found in the under-regulated, under-criticized, tax-exempt, and specially privileged labor organizations--and in their belligerent, aggressive, and far-too-often lawless and corrupt managers."

Donald R. Richberg
Labor Union Monopoly
Henry Regnery Co., Chicago 1957

"I shall take the same basic attitude as in other recent writings: that powerful unions are not only inevitable, but indispensable; that their powers are necessarily monopolistic, in the simple sense of unified control of the fixing of the selling price of a factor of production; that some limit should be set on their powers, especially powers of coercion and restrictive powers which make them impervious to the forces of supply and demand; but that literal application of the antitrust laws is not warranted --the lines must be drawn in different places. This leaves unions with powers outside the contemplation of the competitive system, and this carries responsibility--recognized or not--for using these powers in ways consistent with the requirements of a healthy economy as a whole."

John Maurice Clark,
Criteria of Sound Wage Adjustment, with Emphasis on the Questions of Inflationary Effects - The Impact of the Union - edited by David McCord Wright, Harcourt, Brace & Co. New York, 1951.

There is a great reluctance among trade union executives and the leaders of both major political parties to face up to the fact that the economic power of labor is too great for the overall welfare of our economy. ...The immediate result is that unions can force the companies to grant higher wages, even at a time when there is a fall off in the demand for automobiles. In turn, the advance in wages leads to still higher prices for automobiles, which cause even a greater decline in the demand for cars. ...In short, the monopoly power of unions has resulted in such high prices for automobiles and many other goods, that the market for these commodities has been curtailed. Much of our current recession stems directly from this abuse of power."

Dr. Charles F. Philip, President
Bates College, Lewiston, Maine, April 1958
Press release of speech before the North-eastern Lumber Manufacturers Association

"When a small minority of workers are licensed by law to set their wages by force, the automatic process of economic betterment is crippled. The higher wages, not earned by productivity, cause an unnatural increase in costs and in prices. Sales are less than they would have been. Employment is less than it would have been. ...The net results of wages raised by force are (1) an unnatural rise in the cost of living for all the public, (2) reduced employment in the affected industry, and (3) increased competition for jobs outside the affected industry."

Dr. Neil Carothers, Dean Emeritus
School of Business Administration
Lehigh University - open letter in
The Commercial and Financial Chronicle
October 10, 1957

"...Expressions of professional opinion at the time uniformly stressed monetary forces as the root of the inflation, though the suggestion was common that aggressive unionism strengthened the rate of increase in the price level. For example, Hardy contended early in 1946 that government encouraged wage increases were becoming a primary source of inflationary pressure, given the monopoly power of the unions and the absence of marked unemployment..."

"...Bronfenbrenner was impressed by the monopoly power of unionism, which he viewed as pushing up prices by forcing up wage costs and as pulling them up even more through the income effect of wage gains--all fostered by government help, easy money, and full employment..."

"The real danger, Friedman thought, is not that strong unions can produce inflation, but that inflation affords them opportunity for an illusory show of strength that in turn increases their political power. Then through political influence the union might invoke continued inflationary policies, following this by including government to introduce a system of direct controls with longer-term collectivist implications for our society"...

"...With varying pessimism cost-push advocates also assume that unions will probably push up the wage level faster than the average rate of increase in the physical productivity of labor, a possibility mentioned by Lord Beveridge as early as 1945"...

"Summed up, therefore, the heart of the cost-push problem lies in an unconditional government guarantee of full employment and in a strong and well-based trade union movement, determined to force up wage costs at a faster rate than the increase in man-hour productivity."

"Unionism, full employment, and inflation. Those who have claimed that a full employment policy may produce a wage-cost push leading to inflation have pointed to the increased bargaining power of unionism as the main threat. As noted earlier, Beveridge himself thought this a danger, attributing it to uncoordinated and competitive sectional bargaining and calling for an undefined rule of reason to guide a centralized wage policy. If reason were to fail, Beveridge reluctantly concluded that wages and prices would have to be fixed by the state."

"Writing at the end of three years of postwar inflation, Lindblom went even further, finding a basic incompatibility between modern unionism and private enterprise and holding variously that unionism had created inflation and unemployment, now produces these effects, and/or will produce them throughout the economy. In his opinion, full employment with price stability is inconsistent with the inevitably unstabilizing impacts of wage-setting under collective bargaining. With differing degrees of optimism or pessimism, many others have also held that commitment to a full employment program carries the risk of union-imposed inflationary wage pressure."....

"...Assuming adequate economic expansion in the future, creeping inflation seems inevitable, for postwar experience so far indicates that the unions will not be content with annual wage increases no greater than the rise of labor productivity. Nor does more restrictive monetary management seem politically likely in these times."

George H. Hildebrand, Professor of Economics
The Economic Effects of Unionism
University of California, Los Angeles - 1958

"Wage policy may well become a crucial factor (in preventing undesirable inflation and deflation, along with monetary and fiscal policies.) The long period of intermittent inflation and other factors have accustomed the labor unions to expect every year larger wage increases (in the form of higher wage rates or of fringe benefits) which greatly exceed the annual increase in labor productivity (output per man or man-hour). If aggregate demand is controlled by monetary and fiscal policies so as to prevent inflation, a rise in the wage level of more than, say two percent (or 2.5 percent at the most) a year must lead to unemployment."

"... A rise in wages may or may not increase purchasing power of the workers (depending on what it does to employment). But in any case, whether it does or does not raise purchasing power of the workers concerned, it boosts cost of production, it pushes up prices (or prevents prices from falling) and so reduces the real purchasing power of all consumers, including labor itself, adds to the fire of inflation, and thus makes it more difficult for the monetary authorities to relax credit restrictions."

"... Hence, if the over-all price level is to remain stable, the prices of the products of the more progressive industries must fall and the prices of the less progressive industries must rise. This presupposes, however, that wages in the more progressive industries cannot rise as fast as productivity in those industries . If stability of the price level and full employment are to be maintained, wages in these industries cannot be allowed to rise faster than average productivity of labor in the whole economy."

"Or if wages in the progressive industries are allowed to rise a little faster (in order to attract labor from elsewhere), overall price stability requires that wages in the less progressive industries be reduced... It follows that the policy of wage increases in proportion to (let alone those in excess of) the rise in productivity in each particular industry is highly inflationary."

Gotfried Haberler, Professor of Economics
Harvard University
Daily Labor Review, June 25, 1958

"The search for means to strengthen competition would have to be pursued without favor in business markets as well as in labor markets. But it is only a recognition that we live in the 1950's--not in the 1890's--to say that the main problem lies in labor markets. There are several reasons for this. In most industries, except public utilities subject to regulations, there are several--often a great many-- firms competing with each other, whereas single unions covering an entire industry or market are common. Moreover, labor costs are much larger than profit margins. The potential contribution of excessive wage increases to inflation is therefore greater. Most important, we have a long-established public policy in favor of competition in business..."

"But we do not have even the beginnings of a public philosophy about the proper limits to the powers of labor organizations in an economy basically organized on the principle of competition. Our laws ~~tend to~~ deny the existence of the problem, as if saying that labor is not a commodity changes the facts that labor is the main economic resource and that wage rates are the main element in costs and therefore in prices. And recent investigations of unions have not focussed on this central issue of their effects on wage rates and inflation."

"The problem of the proper limits to the character and extent of union power in a competitive, democratic, free society is one that urgently needs objective public discussion."

"We recommend that the basic laws of the country be reviewed to see whether they permit labor organizations to have a degree of economic power which is not in the public interest."

Research and Policy Committee of the
Committee for Economic Development
Defense Against Inflation - July, 1958

IRD/PHM October, 1958