Labor Unions (1985 folder)

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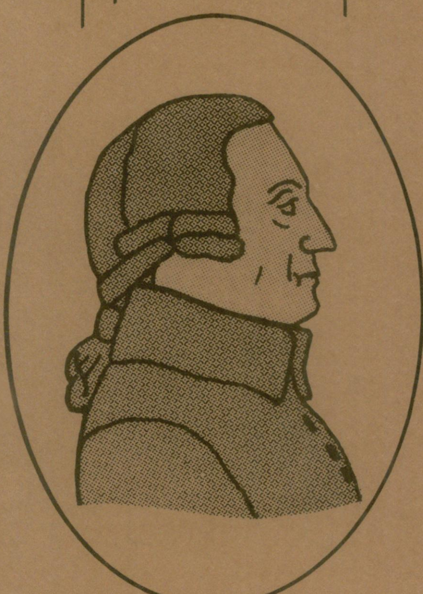
# THE HISTORY AND ECONOMICS OF LABOR UNIONS

[by]

Morgan O. Reynolds





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# The History and Economics of Labor Unions

Labor unions remain a prominent feature of every Western economy, although union membership is fading rapidly in the United States. According to government statistics, labor unions and employee associations have 20 million members, enforce 180,000 collective contracts, and collect more than $5 billion annually in dues, fees, and assessments in the United States. Nearly one of every five American households has a dues-paying union member in it, and each day we rely on things produced, transported, or sold by unionized employees.

Such power and prosperity for unions is a relatively recent development in U.S. history. Until fifty years ago America was overwhelmingly nonunion. At the beginning of the 20th century, only 500,000 people were union members—less than two percent of all employees. How did unions get so big since then? The answer lies in an analysis of the history and economics of trade unions.

## The History of Labor Unions in the United States

The history of unions in America can be conveniently divided into five periods: pre-1850, the agitation of 1850-89, the union growth of 1890-1914, the rise and fall of 1915-33, and the modern era since 1933.

### *Pre-1850*

Before 1850, organized labor was trivial in extent. Unions were largely failures, having relatively little economic clout and disbanding whenever business downturns occurred. Contrary to popular impression, unions did not originate among the lowest wage earners who were presumably the most exploited by capitalists, but among the high-income crafts, like printing and other skilled trades, composed of educated, urban workers. Nor did unions form at large firms, where giant size presumably gave firms a powerful bargaining advantage over their workers. Consistent with economic theory, unions were mostly groups of craftsmen because they met the two general conditions for profitable organizing: (1) large potential gains in wages because of inelastic demand for services (hard to replace), and (2) low cost organization of the labor market (small numbers of workers in the trade, low turnover rates, employers few in number or geographically concentrated). In business language, it was profitable to organize (cartelize) labor in some markets and not in others. In the modern era, unions are still primarily found in crafts and industries where the labor market is concentrated or regulated by government rather than in decentralized industries, like wholesale and retail trade, services, and agriculture.

### *1850-1889*

Nearly everything was tried in some form or other during this era: socialism, syndicalism, anarchism, cooperatives, political unionism, and the most seductive idea of all, welding everybody into one giant union. Unions and unionists were a diverse brew. Unions were here one day and gone the next. Some unions were secret societies that adopted names, like the Knights of St. Crispin or the Knights of Labor, and had secret membership rolls, secret rites, and secret membership campaigns.

An aura of collective protest, high-pitched emotion, and revolutionary fervor accompanied unionism everywhere. And with it came the specter of union violence. Bombings and killings in the anthracite fields during the 1870s (attributed to the Molly Maguires), the anarcho-syndicalist flavor of the Haymarket riot in 1886, the violence of railroad and steel industry disputes, and many other incidents raised an image of unionists and organized workers as a threat to peace, prosperity, property rights, and to liberty itself. Although union accounts tell of the oppression of capitalism and worker protest, unionism commanded little allegiance or respect in the 19th century because individualism and liberty, not collectivism, was the ethic of the day. American capitalism was in its heyday (in England too), and the concepts of free enterprise and individual freedom had a grip on popular opinion that is hard to imagine from our contemporary vantage point. The U.S.A. was not fertile ground for selling unionism, nor other forms of collectivism for that matter. The main cement of European unions—easily aroused class resentments—was absent in America, and Marxist-style sentiments about the "plight of the working class" never became a dominant mood here, contrary to some historical accounts. More often, people were horrified and upset by outbreaks of labor violence and union disruption of production, especially if the outbursts had revolutionary overtones.

*1890-1914*

Finally, a strain of unionism emerged as a survivor in this unfavorable environment. Experiments with political radicalism gradually gave way to *business unionism*—the notion that unions must pursue immediate, material gain for their members within a private enterprise system. The idea was to accept capitalism, the wage and political systems, and achieve marginal gains for members within it. The ambitions of social visionaries and reformers who saw unions as a vehicle for comprehensive change fell by the wayside.

The tradition of 20th century American unionism was largely the work of the American Federation of Labor (AFL) and especially its leader, Samuel Gompers. The AFL was founded in 1881 as a federation of national trade unions, each composed of a particular craft. Unions in single crafts could survive in a private-property, market economy by banding similar workers together and bargaining monopoly-style for their services as a lump.

Union membership in the early 1890s was barely 200,000. As unions found effective methods of organization, the economy was recovering from the panic of 1893, and membership hit 447,000 in 1897. Once the formula of national craft unionism was in place, unions grew to a modest share of the labor force without massive government help. Membership rose to 2.7 million by 1913 and then fell to 2.5 million in 1915, nearly 7 percent of the labor force on the eve of America's entry into World War I. Only the railroad and postal unions were direct beneficiaries of pro-union federal intervention, although 17 state legislatures passed laws during the 1880s and 1890s prohibiting employers from firing employees for belonging to or joining unions. The courts subsequently struck these laws down as infringements on the liberty of contract. The laws may have temporarily boosted union memberships and, if nothing else, reflected a more favorable political climate for organized labor during this period.

*1915-33*

Many historians identify World War I as the watershed of the 20th century, and it was pivotal for governmental policy toward unions. The national emergency doubled union membership to 5 million, or 12 percent of the labor force by 1920. Not only was labor scarce, but to ensure "labor peace" government set up federal wage and labor boards to promote unions and collective bargaining and included union leaders as board members. The government proclaimed its support of unions, ordered the establishment of work councils of employee representatives in nonunion plants, forbade interference with union activities, ordered companies to reinstate union members with back pay, seized defiant companies like Western Union and Smith and Wesson, and in one case created a union, the Loyal Legion of Loggers and Lumbermen. The greatest union growth occurred in industries directly managed by government, like the railroads and shipbuilding. Some of the federally-ordered employee organizations later became company unions.

After wartime orders were filled, the federal measures to force companies to recognize unions as exclusive agents of employees ended, and the law reverted to prewar standards. The labor market was deregulated, in other words. Although unions had gained 2 million members during World War I and its aftermath, membership plummeted 1.5 million by 1923, suggesting how dependent unions were on intervention for membership. Union losses were concentrated in the war industries run by government. Additional factors were the general return to private management and the 1920-21 depression. During the 1920s, union membership stabilized at 3.4 million, but by 1933 the depression reduced membership to 2.8 million and unions were in a free fall.

*Modern Era, 1933-Today*

Federal legislation in the 1930s reversed the decline and created the labor framework that persists today. The first durable help for unions was the Railway Labor Act of 1926, which basically mandated collective bargaining on all interstate railroads and set up the machinery for government intervention in labor disputes. The act was declared constitutional in 1930. The national emergency of World War I provided much of the experience and precedent for the Railway Act, and six major pieces of labor legislation passed during the confusion of the Great Depression: Davis-Bacon, Norris-LaGuardia, National Industrial Recovery Act, National Labor Relations (Wagner) Act, Walsh-Healey, and Fair Labor Standards Act. Three of the bills—Davis-Bacon (1931), Walsh-Healey (1936), and Fair Labor Standards (1938)—authorized direct federal fixing of minimum wage rates, maximum hours, and other working conditions in various sectors of the economy, and I say no more about them here.

In March 1932, President Hoover signed the Norris-LaGuardia Anti-Injunction Act. The act was the culmination of a fifty-year campaign by unionists and their academic allies against "government by injunction." The act declared nonunion oaths (so-called yellow dog contracts) unenforceable in federal courts, gave unions immunity from antitrust law, and gave unions immunity from private damage suits and injunctions in federal courts. The basic purpose of the act was to allow unions more latitude to use their aggressive tactics. A partial result was that the number of strikes doubled between 1932 and 1933 to 1,695 and continued to climb to a peak of 4,740 in 1937.

The NIRA was a system of industry codes or cartel agreements, sanctioned by the government in 1933 and intended to raise prices throughout the economy. The mistaken theory was that falling prices were *causing* the depression and a reversal of "excessive" competition would hasten recovery. The politicians mistook the market pressures for coordination to be the cause of economic disorder. After the destructive interventions caused or permitted by the Hoover administration, including the imposition of the Smoot-Hawley tariffs, the failures of the banking system, and the monetary collapse permitted by the Federal Reserve system, a general reduction in prices was necessary to recoordinate the economy and restore employment and output. Although the Supreme Court struck down the NIRA in 1935 as an unconstitutional delegation of unlimited legislative power to the president, the NIRA's lasting importance was that Section (7a), promoting unions and collective bargaining, was quickly rewritten to become the Wagner Act of 1935.

The most famous and important labor legislation from the 1930s was the Wagner Act, signed by President Roosevelt in July 1935. The act used federal power to make it easier (less expensive) to unionize unwilling enterprises and employees in the private sector. The main features were creation of a political board—the National Labor Relations Board (NLRB)—to enforce the act, declaration of "unfair labor practices" to restrict employer resistance to unions, NLRB conduct of worker elections, NLRB determination of eligible voters, NLRB enforcement of exclusive (monopoly) bargaining rights, and NLRB enforcement of union pay scales for all employees covered. In April 1937, the Supreme Court by a 5-4 vote declared the Wagner Act constitutional in the famous "stitch in time that saved nine." During the consequent wave of strikes, many businesses and industries fell to union organization. The key characteristic of the NLRB is discretion, as evidenced by its extraordinary series of reversals and changes in policies, especially with changes in Republican and Democratic administrations.

Subsequent federal legislation modifying the Wagner Act—principally Taft-Hartley in 1947 and Landrum-Griffin in 1959—has not been so favorable to unions, but this can easily be exaggerated. Neither Taft-Hartley nor Landrum-Griffin tampered with the basic governmental services supplied to labor organizations. As legal scholar Richard Epstein puts it, Taft-Hartley was a partial union victory because it kept the original structure of the statutes, making it more difficult to return to common law rules. The amendments expanded governmental regulation to deal with some of the effects of union power. This is a familiar pattern in regulation because once monopoly rents (transfers of income caused by intervention) are created and enforced by government (through tariffs, marketing orders, licensing, and a wide range of redistributions), there is a tendency to dissipate rents in response to pressures by aggrieved groups. Patching up a bad law is not a promising way to remedy a problem.

Spurred by federal protection, new Congress of Industrial Organizations (C.I.O.) unions advanced into the mass production industries while the old-line A.F.L. unions also gained members. From a trough of 2.8 million members in 1933, total union membership rose to 7.2 million by 1940, then to 13.2 million by 1945. Union membership continued to rise to a peak of 25 percent of the civilian labor force in the early 1950s. The decline that unions suffered after World War I failed to occur after World War II because the pro-union federal framework sustained the advances of the 1930s and World War II. Since the early 1950s, however, the union share of private employment has eroded in a nearly straight line to its current 14 percent and promises to fall below 10 percent within the next few years.

**The Economic Theory of Unionism**

What made unionism successful is that the world began to receive its ideas sympathetically. Ultimately, it is not strike threats, picket lines, boycotts, and political spending that counts, but what people believe about unions and their effects that counts. Unions and their allies constantly appeal to our best instincts, arguing that unions help the "underdog." An influential segment of public opinion came to believe that unions helped the downtrodden and disadvantaged because they believed that 19th century capitalism abused workers. This belief is a good example of why history—our perceptions of how things worked in the past—is so important in forming today's opinions. Unions are supposed to be part of the middle way between pure capitalism and socialism.

Rational economic analysis, however, shows that union wage pressure, threats, and muscle cannot improve the standard of living of the masses. On the contrary, unions harm the flow of wages paid to working people because unions lower the overall productivity of the American economy. Virtually everyone suffers as a result, although some well paid union workers enjoy high wage rates *relative* to workers in nonunion jobs. The artificially high pay of some union workers comes largely at the expense of consumers and other American workers.

Labor unions remain controversial in our society despite 200 years of experience with them. It would seem to be relatively easy to convince most people that they are overworked and underpaid, yet people remain uneasy about unions. Why? Two reasons stand out: (1) many Americans seem to suspect that unions are a kind of monopoly, and (2) unions rely on adversarial methods—threats and force.

In understanding unions, it is tremendously useful to have a compact theory of what they are all about. Economics supplies it. Economists originally derived the theory of monopoly to analyze business monopoly, but the theory applies to labor as well. A union is basically a cartel: a group of suppliers (of labor services) who separately have no control over wage rates and other working conditions prevailing in the marketplace, but who want to control (raise) their own pay collectively. There is nothing different in principle between such combinations of workers and other producer combinations like the businessmen, farmers, oil producers, and physicians who try to restrict supply and raise the prices of their services. Although sometimes disguised or denied, unions simply are producer groups with interests diametrically opposed to those of consumers. Unions are labor OPECs.

Trade unionists do not really try to conceal their main purpose. Classic union slogans have been to "take competition out of wages" or to "take labor out of competition." Removing labor pricing from competitive discipline cannot be in the interests of consumers, of course. Suppose other sellers of goods and services said that they vow to take "competition out of prices." Even Arthur J. Goldberg, former general counsel of the AFL-CIO and Supreme Court Justice, grudgingly recognized the anticompetitive nature of unions:

> Technically speaking, of course, any labor union is a monopoly in the limited sense that it eliminates competition between employees for the available jobs in a particular plant or industry. By concerted economic action, these workers attempt to increase the wage at which the employer will be able to purchase their labor.

[Mr. Goldberg also appears to believe that "the available jobs" are fixed and independent of wage rates.]

Business firms buy and rent an enormous variety of goods and services every day. How are the prices of all these inputs determined? Essentially by a competitive, free market process. How can we be sure that these suppliers are getting the "right" prices for their products? We can't, but few ask the question. No one seems to be concerned about whether Firestone is being paid a "fair" price for the tires it supplies to Ford Motor Company, but many observers are concerned about labor because they believe that labor is different. The claim is that an "inequality of bargaining power" exists in labor transactions, despite the fact that these trades are for the mutual benefit of both parties. Businesses supposedly have control over the prices of labor and persistently set them too low unless forced to raise them by aggressive labor unions (or by government command). This theory is suspicious because it is not general. Proponents do not claim that business firms have enormous control over the prices of other materials, services, and equipment that they buy (an exception is farmers' complaints about low prices for their output, analogous to unions' claims).

Employee compensation has been 76 percent of national income in recent years. All labor earnings total about 80 percent of national income because approximately two-thirds of the 6 percent of national income received by proprietors is also a return to labor services. The remaining 20 percent of national income is received by suppliers of nonlabor factors of production who earn returns in the form of corporate earnings, rent, and interest payments. Profits are a shallow purse as a source of union wage gains because employee compensation typically exceeds corporate profits (net income) by nine- or ten-fold in enterprises.

Labor services are subject to the laws of supply and demand, just as other vendible commodities are. Individual companies are not free to set wages wherever they might please because there are 4.5 million organizations employing labor in the U.S. economy. If a company offers below-market wages, it cannot attract or retain the quality of labor services in the quantities it wants. If a company pays above-market wages, then an excess supply of eager, qualified applicants shows up for the limited vacancies. If a company continues to overpay its labor, then the market value of the enterprise must decline. Market pressures for efficiency would eventually displace the inefficient managers through bankruptcy proceedings or stock takeover by new owners and managers.

Wage rates for different skills are basically set by the interaction of supply and demand among a large number of potential buyers and sellers. Individual employers, no matter how large, cannot depress wage and other working conditions below market rates for extended lengths of time under such conditions. Aside from the anticompetitive effects of union and government price-fixing, dynamic competition and mobility are the rule in labor markets. Market pricing coordinates the buying and selling of labor services just as it does in other markets. If products cannot be sold and workers cannot find jobs, the only explanation is that the prices and wages asked are too high. Government and its coercive offspring—labor unions—are the primary price fixers that prevent market pricing from recoordinating the economy and restoring full employment.

The union doctrine can be stated in terms of standard economic theory: (1) employees and employers are natural adversaries and employers have an immense amount of power to dictate the terms of trade (labor monopsony), and (2) public policy should promote unions in order to offset monopoly power on the demand side (bilateral monopoly). Even if the first proposition were accepted, the second proposition does not follow because it must be compared with alternative measures—especially policies intended to encourage more competitive bidding for labor services. If government simply refrains from creating and supporting cartels, then the competitive process works well, if not perfectly, to maximize output, employment, and diminish inequality of earnings by widening opportunities. While some observers deny that there is much competition for labor services, their incomplete view may be influenced by the fact that they already are in their best earning opportunity or are overpaid due to their unionized or government employment. If someone is overpaid, then bidders eager to acquire that person's services are understandably scarce.

**Union Goals and Tactics**

The appeal of U.S. unions to workers is *economic:* the union can gain something of material value for members (at no cost or at no major cost). How could anyone but a heartless employer be opposed to higher wages and better working conditions? As economist Finis Welch has written, "The notion that everyone should earn a decent wage is as appealing as the idea that everything good should be cheap." If only life were so simple. The problem is a confusion over cause and effect. High wage rates are the *result* of successful economic activity, not the *cause.* Similarly, low prices are the *result* of productive activity, not the cause of an abundant supply of goods. Directly forcing prices to be something other than free market rates impoverishes rather than enriches the community.

Unions attempt to force buyers to pay more than is necessary for labor services. Success rests on restricting the supply of labor or raising the demand for the members' services. The main tactic of unions is the *strike,* at its core a coercive device to deny the firm access to the crucial input in the production process—labor—and deny workers who disagree with the strikers' demands access to an employment opportunity. Economist Ludwig von Mises captured the heart of the matter when he wrote that the sum total of "trade union rights" is the privilege to use threats and violence against other workers, a freedom of action more or less successfully maintained in the western countries by the toleration of public officials. As Thomas Jefferson said, "The execution of the laws is more important than the making of them." Unionized labor markets are islands of monopoly wage rates in a competitive sea. These islands ("union scale") can only be sustained by sea walls which keep the seawater out of their markets, thus retarding the tendency for prices of similar skills to equalize throughout the economy.

The association between unions and violence is clearly explained by the monopoly or cartel theory of unionism. In order to force buyers to pay more than is necessary for labor services, unions must restrict or cut off the supply of labor to struck enterprises or agencies. The only effective way to shut firms down is with threats and violence if many qualified workers refuse to cooperate with the union and are willing to defy picket lines and work for wages below those demanded by unionists. The interests of the nonstriking workers, employers, and consumers (in contrast to the strikers) are to preserve access to a free labor market and maintain peaceful conditions, so that work and production can proceed smoothly and economically.

Much of the political activism of unions can be understood as attempts to protect or increase the demand for union labor. Examples are the union label ("Always look for the union label . . ."), tariffs and quotas on foreign goods competing with union-made products (Japanese cars), laws requiring "Made in Korea" labels, building codes that require installation of union-supplied materials or labor, reduced class sizes to expand the demand for school teachers, federal subsidies to unionized industries like the merchant marine or mass transit, or opposition to contracting out work to outside bidders. Other political measures promoted by unions—restrictions on foreign immigration, compulsory apprenticeship requirements, child labor laws, minimum wage rates, and occupational licensing—restrict trade by hampering the ability of other suppliers to serve the market, so that union labor is relatively more attractive.

Unions representing one-half of union members have their national headquarters in Washington, D.C. No *Fortune* top 1,000 corporation does. The heavy involvement of unions in politics is testimony to the difficulty of maintaining monopoly gains in a dynamic economy churning with substitutes, human ingenuity in circumventing obstacles, and responsiveness to prices. Unions, constantly battling the erosion of their privileged positions, always support new political regulations and restrictions, thereby impeding the free flow of capital and labor. An unhampered market directs capital and labor to places where they can earn their highest returns. Resources tend to reallocate continually to their most productive uses, but unions and their recommended restrictions impede this wealth-creating process.

**Four Myths of Unionism**

1. Unions protect workers from employers' superior bargaining power.

The belief in employer power over wages and working conditions is almost entirely without foundation in fact or theory. Employers cannot conscript nor enslave anyone. If an isolated employer had a monopoly on labor demand, marginal workers would outmigrate to accept the higher market wages available elsewhere, thereby shrinking the firm's labor supply and forcing wages up. Other firms would arrive to take advantage of inexpensive labor, thereby raising demand and local competition for labor. Although these forces do not operate instantaneously, they are constantly at work in the real economy to remove imbalances. Both supply and demand operate to remove the wage inequality, raising wages where they are low and lowering them where they are high. The world is much more competitive than people believe. If conspiracies among employers to fix wages below competitive rates are such an important problem, it is hard to explain why there were never prosecutions or civil suits under our antitrust laws, especially since the courts would have lent such a sympathetic ear to pleas of labor abuse (the monopoly element in the demand for college and professional athletes partially exists because of exemption from antitrust law). Although temporary immobilities offer some scope for bilateral labor bargaining, there is no reason to believe that employees consistently suffer the worst end of these deals, especially since large employers have a strong incentive to maintain a reputation for fair dealing in the labor market.

Unskilled and semi-skilled workers have much wider employment alternatives than most people believe: the unskilled are not highly specialized nor are their services useful solely to one employer. If anything, immobility and subsequent exploitation is more common for capital than labor. Once installed, much capital equipment is relatively immobile by nature. Unions have more to do with exploiting investors' earnings from investments in transportation facilities, ports, manufacturing plants, mines, and public utilities than vice versa (protecting workers from exploitation by greedy investors).

2. A strong union movement created the high living standards of the United States.

Union leaders are eager to assume credit for the long, upward march in the standard of living in the United States, but the idea is false. Real wages rose about 2% per year before unions and did so after. The rate would be higher without strong unions. If union wage pressure or government wage fixing could bring prosperity, it would be easy for the poor nations of the world to get rich quick by artificially boosting wage minimums. The problem is that no one is obligated to hire at higher prices. The sad fact is that labor unions, tough bargaining, and political wage-fixing do not create wealth. The source of our prosperity is capital, efficient management, and industrious labor coordinated through the price system, not labor unions.

3. The enemy is the company.

This is a misconception. Labor unions do not compete against employers, despite appearances to the contrary. Sellers always compete with other sellers, not against buyers. Unions compete with substitutes for the members' services—members of rival unions, foreign workers, strikebreakers, nonunion workers, dissatisfied former union members, and other means of substitution. The bitter jurisdictional disputes among unions dramatically illustrate the fact that the "enemy" of organized labor is labor. Unions are not much interested in other unions' welfare despite the cant about the labor movement, solidarity, and brotherhood. The interest of one group of workers is always opposed to that of other workers if the group is paid more than market rates.

4. Unions force managements to find new ways to improve productivity.

This is a half-truth. Artificially expensive labor makes more mechanized production relatively more attractive in unionized companies, but from a social viewpoint this produces allocative inefficiency. Labor and capital of high quality are used in producing union goods that could be produced more cheaply by other methods. The fallacy is that capital is simply shifted around in the economy; no new capital is created by union wage aggression. Capital is less efficiently deployed in the economy, and therefore, poverty increases.

**Public Sector Unions**

Public sector unions grew rapidly from a membership of 900,000 in 1960 to almost 6 million by 1976, concealing organized labor's overall weakness from public preception. The union share of government employees also rose from 11 to 40%, but by 1982 the union share had slumped to 35% and 5.5 million members.

Just as in the private sector, the rise of large unions in government owes less to employee demand through private choice than to pro-union legislation, rulings, and orders handed down via collective choice. Membership in unions did not grow steadily but in leaps following specific changes in public policy. The 1935 Wagner Act specifically exempted government employment, and government remained basically nonunion without the necessary (but not sufficient) condition of pro-bargaining law. However, John F. Kennedy signed Executive Order 10988 in January 1962 to promote unions in the federal bureaucracy. The order was modeled on the Wagner Act, though less generous to unions.

The order stimulated a series of bargaining laws in states, like Michigan, New York, Washington, and Pennsylvania, where unions traditionally have been politically influential. Only a dozen state governments, mostly in the South and West, do not have some kind of mandatory bargaining law to promote public employee unions today.

Special features distinguish governmental from private employment. The first is the issue of sovereignty, which can be defined as the supreme and unchallengeable right of compulsion. A genuine sovereign cannot be forced to do something by a private person or agency and still be called sovereign. Whoever can force governmental authorities to submit to his will is government.

Consequently, government officials of every political stripe from Ronald Reagan back into our political history have denounced the use of union threats and force against government. Franklin D. Roosevelt, for example, said in 1937, "A strike of public employees manifests nothing less than an intention on their part to obstruct the operation of the government until their demands are satisfied. Such action looking toward the paralysis of government by those who have sworn to support it is unthinkable and intolerable." The use of coercion by public employees should not be exaggerated, however. Strikers in the public sector may try to cut off the government's supply of labor and shut down operations by threat and force, but in a democracy it more often becomes a contest for public opinion. The union tries to paint government negotiators as mean people who "don't care about the education of our kids" or as "union busters" or whatever else union officials believe would sound good on the evening news.

The second major difference between government and private employers is that most government services are paid for by taxation. Taxpayers are forced to pay, whether they want the service or not. In the private sector, buyers have the option of refusing to buy the service or buying from someone else. No private enterprise, except unions, can legally extract revenues through the use of force; they must cater to buyers via voluntary exchange. Union wage rates in the private sector are also constrained by competitive pressures to keep costs down. Governments do not face the same pressures for efficiency. The issue can be summed up as a question of taxation without representation. Unionists, in effect, say that the government (ultimately the taxpayers) is not paying them enough and that they intend to force government into paying more. If there is not enough money, then raise taxes. If elected officials attempt to hire qualified replacements to perform the service at lower public expense, then take to the streets, the courts, or the ballot box. The higher wages of government employees come at the expense of taxpayers, the majority of whom earn lower wages than government employees.

A third question involves the necessity of certain governmental services. If there are no good legal alternatives to government-supplied services, then the marketplace cannot protect the public as well from public sector labor disputes. In some cases the inherent nature of the service, arguably, might limit the number of competing suppliers in accord with the concepts of natural monopoly or pure public goods. But in most instances government artificially prohibits or severely handicaps private competitors, making the problem much worse than it need be. Examples are fire protection, garbage disposal, schools, hospitals, public utilities, and even prison-keeping. Private contractors can supply these services and are allowed to in some cases. They are more cost-efficient than public bureaucracies, often at 50 percent of governmental cost. The presence of multiple producers vastly reduces the vulnerability of citizens to extortion by organized public employees.

Most observers argue that protective services by police and courts are unique services which only government can provide. Each of us has a natural right to defend his or her person, liberty, and property against the predations of others, by force if necessary. Since every person has the right of self-defense, it follows that a group has the right to organize a common force to enforce these rights. As Frederic Bastiat wrote in 1850, "The law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces." If we can get along without public protection from aggression, there is no reason to have government in the first place.

No mayor or governor can stand by during a police strike and watch society revert to lawlessness. A police strike, if government does nothing, resembles the aftermath of a natural disaster. If owners are not around to secure their property, even normally law-abiding citizens find irresistible the temptation to take something. Looting and stealing rise sharply if nothing is done, like calling out the sheriff's department, the National Guard, or forming citizen committees.

### The Industrial Relations Community

Portions of this essay are at variance with the teachings of many labor and industrial relations writers. Why? The inattention of labor scholars to the economics of unions is part of the factual record and deserves an explanation, no matter how inadequate. One reason is honest ignorance and confusion. Many writers in industrial relations are not aware of economics, and economists must share the blame to the extent that they fail to explain the logic of labor unions or lack the courage to point out unfashionable truths. Most labor scholarship is confined to cases and practices within the current legal and institutional framework, which avoids examining fundamental questions.

A second reason is willful neglect. The labor scholars who understand the cartel theory of unions prefer to ignore it rather than refute it.

Many in the intellectual community fail to look frankly at unionism and labor violence because of an attachment to the view that helpless employees are exploited by free market arrangements, receiving too little of national income, while investors receive too much. Occasional labor violence, for example, reinforces the belief that workers are alienated from the market system and supports the view that federal labor law is necessary to support unions in order to "keep the lid on" (deflect the revolutionary potential of workers). Yet the real explanation for labor violence is that the labor law tacitly allows unions wide latitude to use coercive techniques. Incentives account for violent behavior, not alienation from the economic system.

The third reason is that the current system of labor mediation, conciliation, fact-finding, arbitration, and other labor machinery provides power and income for successful industrial relations scholars. These consulting opportunities help to explain the superficial nature of the academic literature. Charles Killingsworth told a revealing story about the first meeting of the prestigious National Academy of Arbitrators in 1947. A photographer was on hand to take pictures of the leading lights, and when the photographer said "smile, say cheese," a member of the group said, "No, you must realize you are dealing with arbitrators. You should say, 'Fees'."

**Public Policy**

If labor unions are privileged monopolies that harm the public and reduce our standard of living, what would be promising changes in governmental policy? Instead of accepting the current framework, we should rethink the entire problem. The wrong approach is to outlaw unions or repress them in any way. This only reinforces their underdog image and sense of paranoia, is contrary to the idea of a free society, and would be ineffective or even counterproductive, as demonstrated by patchwork laws like Taft-Hartley or Landrum-Griffin. No one knows how to make government-supported cartels behave "responsibly."

The proper remedy is de-regulation in labor markets. This could occur in either piecemeal or wholesale fashion and would involve ultimate repeal and abolition of all the labor legislation supporting worker cartels and collective bargaining in both private and public sectors. This prescription would include the Railway Labor Act, the Norris-LaGuardia Act, the National Labor Relations Act as amended, their pro-bargaining counterparts in the public sector, plus dismantling the commissions, boards, executive orders, state laws, rulings, administrative orders and regulations. The object is to restore the rule of law in labor relations, which means *generality, impartiality,* and *predictability.* Unions and their members would then be treated in a manner consistent with everyone else under ordinary contract, tort, and criminal law.

Woodrow Wilson summed it up in a phrase then common in the sporting world, "A free field and no favor."

If we dispense with the privileges and immunities that current statutes and regulations grant to unions, then labor disputes would be resolved as other disputes are—primarily in private negotiation and ultimately in the courts. Labor disputes would decline because strong unions would shrink without their special interest legislation, de-unionizing the U.S. economy more rapidly than it is already. Direct access to the courts in labor disputes also would reduce strong-arm tactics and threats. People would learn that threats and violence result from the perverse incentives arranged by the exemptions accorded unionism rather than worker "alienation" from the capitalist system.

Repealing our separate labor regulations may appear unrealistic, yet political reality keeps changing in unpredictable ways. The duty of economists is analysis, as best their discipline will allow, of the actual effects of various governmental policies regardless of current popularity or unpopularity. Moreover, there are recent signs that the nation's labor laws are the subject of a growing national debate. Even some union officials have declared that, on balance, they would be better off without the Wagner Act and the National Labor Relations Board.

**Suggested Readings:**


Epstein, Richard A. "A Common Law for Labor Relations: A Critique of the New Deal Labor Legislation." *The Yale Law Journal,* 92 (July 1983), pp. 1357-1441 including comments and reply.

Freeman, Richard B. and James L. Medoff. *What Do Labor Unions Do?* New York: Basic Books, 1984.

Industrial Relations Data & Information Services. *Union Sourcebook.* West Orange, NJ: IRDIS, forthcoming 1985.

Lipset, Seymour M., editor. *The Future of Labor Unions.* San Francisco: Institute for Contemporary Studies, forthcoming, 1986.

Reynolds, Morgan O. *Power and Privilege: Labor Unions in America.* New York: Universe, 1984.

Troy, Leo and Neil Sheflin. "The Flow and Ebb of U.S. Public Sector Unionism." *The Government Union Review* (Spring 1984).

U.S. Bureau of Labor Statistics. *Directory of National Unions and Employee Associations, 1979.* Washington, DC: U.S. Government Printing Office.


**Films:**

1. "Labor Unions: A Question of Violence," (1976) 18 minutes.

A segment of the CBS show "60 Minutes," this film shows the harassment suffered by nonunion contractors and employees in the Philadelphia area because of their refusal to submit to the demands of the construction trade unions. Available from the Center for Free Enterprise and

Concerned Educators Against Forced Unionism<br>
8316 Arlington Blvd.<br>
Fairfax, VA 22038

2. "Inheritance"

Discusses the historical development of labor unions and the benefits achieved for union members by collective bargaining. The film and a teacher's kit, including a film catalogue, are available from:

AFL-CIO<br>
815 Sixteenth St., NW<br>
Washington, DC 20006

## Selected Center Publications

In an effort to reach as broad a spectrum of readers as possible, the Center for Free Enterprise publishes numerous research monographs, other papers and occasionally a full-length book. The following is a partial listing.

**Research Monograph Series**

The research monograph series is designed to provide interpretations of technical articles appearing in scholarly journals. The monographs often are useful for teachers who are addressing current economic issues in the classroom.

1. *The Economics of Industrial Democracy: An Analysis of Labor Participation in the Management of Business Firms,* by Eirik G. Furubotn.
2. *International Price Stabilization and the Less Developed Countries: Lessons from History,* by John R. Hanson II.
3. *Distortions in Official Unemployment Statistics: Implications for Public Policy Making,* by Kenneth W. Clarkson and Roger E. Meiners.
4. *Profitability of Major Oil Companies: Normal Returns on Windfall Profits?* by Gerald D. Keim, Barry D. Baysinger, Roger E. Meiners and Gary D. Libecap.
5. *The Inflationary Impact of Labor Unions,* by Dwight R. Lee.
6. *The Foundations of Free Enterprise,* by John W. Allen, David G. Armstrong and Lawrence C. Wolken.
7. *The Exploration and Colonization of Space,* by Lawrence C. Wolken.

**Series on Public Issues**

The series on public issues has been designed for use by high school teachers and the general public. The authors in the series use commonly accepted economic principles to help readers increase their understanding of complex economic, political and social issues.

1. *Are We Running Out of Everything?* by S. Charles Maurice and Charles W. Smithson.
2. *The Minimum Wage Laws: Who Benefits, Who Loses?* by Margaret Jane Hobson and S. Charles Maurice.
3. *Japan: The Modernization of an Ancient Culture,* by Lawrence C. Wolken.
4. *The Overpopulation Myth,* by Thomas R. Saving.
5. *Entrepreneurship: A U.S. Perspective,* by Henry C. Dethloff and Keith L. Bryant, Jr.
6. *Karl Marx in One Lesson (1818-1883),* by Steve Pejovich.
7. *Pollution in America: The Trouble with Trash,* by S. Charles Maurice and Charles W. Smithson.
8. *Is the Market Fair?* by Gerald Keim.
9. *Inflation: Causes and Cures,* by Thomas R. Saving.

10. *Value & Opportunity: Comparable Pay for Comparable Worth,* by Deborah Walker.
11. *The Revolution in Banking and the Financial Services Industry,* by Donald R. Fraser.
12. *Industrial Democracy: Conflict or Cooperation?* by Steve Pejovich.
13. *The Budget Deficit—The "Crisis" of the 80's,* by Melvin L. Greenhut and Charles W. Smithson.
14. *Trading With the Future and Futures Trading,* by Leonardo Auernheimer.
15. *Insurance Is Everybody's Business,* by Douglas Caddy and Henry C. Dethloff.

## Selected Center Publications

**Other Publications**

*The Economic Responsibility of Government,* by Milton Friedman and Paul A. Samuelson. ($1.00)

*The Political Economy of Federal Government Growth: 1959-1978,* by James T. Bennett and Manual H. Johnson. (Paper-$4.95, Cloth-$12.95)

*Los Fundamentos de la Libre Empresa,* by John W. Allen, David G. Armstrong and Lawrence C. Wolken. ($1.00) [Spanish version of *The Foundations of Free Enterprise*]

*The American free enterprise system traditionally rests on three premises: the right of ownership, contractual freedom and limited government. These premises generate predictable human behavior, consistent with liberty and efficiency. Indeed, the American free enterprise system produces a standard of living and a degree of personal freedom that no other system (or country) has been able to duplicate.*

The purpose of the Center for Education and Research in Free Enterprise is to enhance public understanding of individual liberty and the American free enterprise system through education, community involvement and research.

## Biography of the Author

*Morgan O. Reynolds is a Professor of Economics at Texas A&M University. He received his Ph.D. from the University of Wisconsin in 1971 and has held appointments at the Univerity of California and the Institute for Research on Poverty. He is a former editor of* Pathfinder, *the Center for Free Enterprise newsletter.*

*Dr. Reynolds's main areas of research are labor economics, public finance, and crime. He is the author of many articles in academic journals and of three books:* Public Expenditures, Taxes, and the U.S. Distribution of Income *(1977),* Power and Privilege: Labor Unions in America *(1984), and* Crime By Choice *(1985). Dr. Reynolds is on the Board of Editors of the* Journal of Labor Research *and* Journal of Austrian Economics *and has been a Society Fellow and N. Gotoh Essay Prize Winner in the Mont Pelerin Society and a consultant for the U.S. Department of Labor, National League of Cities, and other organizations.*

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