Cross Cultural Management: An International **Journal**
©2002 Barmarick Publications

MCB University Press Limited
60/62 Toller Lane, Bradford, West Yorkshire,
England, BD8 9BY
Telephone (44) 1274 777700
Fax (44) 1274 785200

Editor-in-Chief
Dr Samuel M. Natale
Professor of Strategic Management, Adelphi University, South Avenue, Garden City, New York 11530, USA

Publisher: Barrie O. Pettman

Indexed and abstracted in:
Technical Education & Training Abstracts

Cross Cultural Management: An International Journal

Volume 9 Number 1 (of four issues) **2002**

Contents

Labour Union Policies: Gains or Pains?

Jason Evans and *Walter Block*

The Authors

Jason Evans, Economics Department, University of Central Arkansas, Conway, AR 72035, USA.

Walter Block, Harold E. Wirth Eminent Scholar Endowed Chair in Economics, 6363 St. Charles Avenue, Box 15, Miller 321, College of Business Administration, Loyola University New Orleans, New Orleans, LA 70118, USA.

The popular saying "you cannot see the forest for the trees" is often used to refer to a situation in which the main theme is ignored or misunderstood due to excessive focus on its components. Supporters of labour unions and their policies could be said to suffer from this distorted point of view. Union leaders have preached the benefits of their organisations to society for so long that many people take them at their word. They claim to help the underdog worker get his fair share of the economic pie with better wages, hours, and other conditions (Reynolds, 1987, p.11). Organised labour also claims to make gains for its members such as setting standards to increase workers' levels of skill and competence, shortening the work week from seventy to forty hours, and increasing their level of health and welfare.

It is important, however, to look not only at the effects of labour union policies in the short-run (trees), but in the long-run as well (forest). When this approach is taken, the real effects of these organisations becomes clear. Their policies distort wages and prices, curb production, decrease nonmonetary rewards, hinder labour/management relations, and have an overall detrimental effect on the economy. So who benefits from this labour agenda? The union leaders, who collect billions of dollars in dues every year from the "underdog workers" they represent.

There is a very popular myth in the United States that labour unions are beneficial to society because of the wage "gains" received by their members. But these wage "gains" are nothing more than wage rates that are pushed above the level that a competitive free market would have brought through supply and demand. This is oftentimes achieved through a strike, or even the threat of a strike (Hazlitt, 1973, p.2). The strikers would like to focus attention on the plight of the so-called underpaid workers and keep the public from asking one important question - who will pay for these higher wages? The union answer is typically that the excess profits of the company involved will cover the increase. That is, the union is playing the role of a contemporary Robin Hood, taking from the rich and giving to the poor.

But the real answer is that virtually everyone pays for these higher wages in one way or another. These short-run "gains" quickly turn into long run "pains" for the entire society. By striking, the union is basically announcing that its workers are more important than everyone else and no one else can do their jobs.[1] By refusing to work and preventing others from taking the vacated jobs, the union is obviously excluding non-union workers. The latter pay in the form of unemployment. Other employees suffer because the "gains" of the union workers cause a decrease in their real wages. This is true because of the effects that higher wages have on the producers of the goods and services the population must buy. Higher production costs force producers to increase prices in order to make a profit. Basically, while union public relations would have everyone believe that they are hurting only the producers by digging into their profits, they are actually damaging consumers in the form of higher prices of goods and services. These "gains" have actually been found to hurt some union members themselves because the higher wage rates in a particular industry will generally lead to less employment there (Hazlitt, 1973, p.3).

No, the only way to increase real wages is to increase productivity. With greater output per man hour, unit costs of goods are lower, thus increasing the amount of product that can be bought with the same amount of wages. Labour unions work assiduously against increasing wealth in this way. One example is their opposition to capital investment and modernisation. Since both have a positive effect on productivity and efficiency, the effect is to retard the lowering of production unit costs. Unions are also notorious for undermining management's ability to do its job, which is to increase efficiency. Perhaps the most well known example of this is the union practice of featherbedding, or make-work projects, which provides their rank and file with unnecessary jobs that are of no benefit to the employer or to the final consumer. So, despite union claims to the contrary, it is evident that unions cannot raise real wages, only distort them. The only way to increase real wages is to increase productivity (Hazlitt, 1973, p.1).

Unions claim to increase productivity by reducing turnover. More specifically, they claim to nearly wipe out the problem of voluntary quits (Rees, 1989, p.131).[2] According to union leaders, lower turnover results in a more experienced workforce with reduced training costs, thus increasing productivity. Unions can also, at times, call for their workers to increase individual productivity if there is a competitive threat in a particular industry which leads the union leaders to believe that jobs could be lost due to the closing of a plant. On the surface, it seems as though they have the best interests of their own workers in particular and of society in general in mind. One hint that this is an erroneous claim, is that the motivation behind these types of actions can best be summed up by a simple equation: "Lost jobs equal lost dues." These increases in production are yet more "trees" used in labour union propaganda to cover up the "forest" of the more harmful effects of unions on productivity.

For if organised labour can pump up productivity on a temporary basis in order to respond to a perceived threat to its hegemony, this is proof positive that in the more typical absence of such specific outside competition they are *reducing* product per man hour. It is as if a slacker were to become unusually busy when and only when his boss is looking at him with a jaundiced eye. This is surely evidence of less than a full effort when the manager is focusing elsewhere.

On the other hand, in industries not earmarked by restrictions on entry (Hamowy, 1984), there is *always* outside competition, breathing down the neck of any specific firm. That the union increases productivity on a temporary basis to ward off a given threat indicates that at other times, its reduction of productivity puts the business concern at undue risk.

Perhaps the most widely known way that labour unions curb productivity is through the use of subdivisions of labour and make-work rules. Subdivision of labour is basically a narrowing of the tasks of each individual worker to the point where he does only one job, or one part of it when the whole process could easily be done by him in its entirety. This results in delays and jurisdictional disputes over who does which tasks.[3] Take for example, a mason, who under the rules of subdivision of labour must build a wall and do nothing else. If the workers who carry the bricks and mix the mortar fall behind and need help to catch up, the mason will not be able to help them even though he is physically fit and able to do so. Closely related to subdivision of labour is the use of aforementioned make-work rules in which workers are employed to do unnecessary jobs. Commonly referred to as "featherbedding" or "overstaffing," these rules are designed for the sole purpose of having more union members employed. Once again, more union jobs means more dues in the pockets of the union leaders.

Another infamous practice of organised labour is opposition to technological advances and machinery that could replace labourers. For example, unions have gone as far as to require an extra man on trains in the early twentieth century to shovel coal into the engine, called a fireman (it is very important to note that this took place after the invention of the modern engine when coal-powered engines became obsolete and no longer in use). While these technological advances would cause some personnel to lose their jobs, they would greatly increase production as well as product quality levels. Innovation would also free workers to participate in other industries which would benefit from the increased production and lower costs from the unionised industry.

In the view of Eleanor Roosevelt, the Hilary Clinton of her day, in a syndicated newspaper column in 1945, "We have reached a point today where labour saving devices are good only when they do not throw the worker out of his job" (cited in Hazlitt, 1979, p.54). But the whole *point* of labour saving technology is to "unemploy" workers in jobs that no longer need doing, so that they can be freed up to undertake tasks impossible to accomplish under the old technology.

At one time in our history, all elevators were manually operated. Automatic mechanisms have long since replaced these archaic devices. One way to interpret this is as unemployment perpetrated by vicious capitalists. But this Marxian notion cannot come to grips with the fact that had elevators continued to be manually operated, this would have limited the size of buildings to say nothing of depriving us all of the goods and services that can now be provided by all the people no longer needed to operate these conveyances.

Labour unions also oppose payment on the basis of output or efficiency, preferring that all workers in a specific field be paid a standard wage. This artifically reduces workers' incentives to put forth their best effort. Promotion by seniority fosters the same lackadaisical effort because no matter how hard a worker tries he will not be promoted before his time. This greatly limits the American workforce by keeping talented, hard workers from moving up to positions of power. An outright deliberate curbing of productivity is union initiated "slowdowns" in which the labour barons advise the rank and file to cut back production and oppose their fellows who produce more than they (Hazlitt, 1979, p.150)[4]

To further demonstrate the relationship between productivity and wages it is necessary to focus on the effects of the former on the latter. Because of the raise in production costs brought about by the higher wages of union workers, cutbacks in production often occur. Companies are in business to make money so it makes perfect sense that paying artificially high wages will have negative repercussions. Since many union members are protected from being let go from their jobs, the only option is to reduce the hours used to produce goods or services. For marginal producers, who are just barely able to stay in business, these union "gains" can force them to stop production altogether. This causes goods or services that would have been produced to not be brought into existence (Branden, 1963, p.2).

In addition to monetary rewards, such as wages, pensions, and bonuses, employers pay workers with fringe benefits such as insurance, locational convenience, free parking, air conditioning, music, low noise levels, and on-the-job training, just to name a few (Reynolds, 1987, p.67). Under capitalism, market forces will determine the level at which these benefits are allocated to the workers, and employers will adjust the amounts of these fringe benefits to match productivity. That is, for example, if the employees would prefer to be able to listen to music while on the job and the benefits to the employer outweigh the costs, the employer would most likely allow the workers to have a radio. If not, he will face a higher than optimal quit rate, as workers migrate to more musical pastures. The employer, of course, wants to minimise labour costs while maximising productivity. In most cases these fringe benefits will increase product per man hour because the employees are happier and willing to work harder. However, if the non monetary payments hinder production, for example, if the workers would like a million dollar surround sound stereo system installed so they can dance all day instead of work, the employer will not likely go along with the idea. Although that is a rather extreme example, it demonstrates what labour unions want for their workers. Leaders not only want higher wages for their members, they also want to squeeze every resource of the employer in order to make their union more attractive to prospective dues payers. It is clearly a case of labour bureaucrats trying to do everything they can in order to sign up more members.[5]

In any study of the negative effects of unions, it is necessary to include the negative implications for labour/management relations. The relationship between management and unions is strained at best because of their positions at opposite ends of the labour spectrum. Management on the one hand wants to maximise productivity, efficiency, and profits. The labour union at the other end, wants to maximise the number of workers, wages, and fringe benefits. It is a relationship where there must be a balance in order to communicate effectively. When unions force wages up, management must respond by cutting back on production in order to minimise costs (Reynolds, 1987, p.66). This can be accomplished through layoffs and normal turnover, or through a substitution of labour-saving machinery in addition to closer supervision of workers.

All of these devices, however, are in conflict with the basic goals of the unions, exacerbating relations between the two parties. Management expects more output from the highly paid union workers and would prefer to increase monitoring, impose more strict quality standards, and entertain a general expectation of increased productivity to meet this end (Reynolds, 1987, p.66). The union, of course, fights management for control of working conditions. The result is often a communication breakdown in which there is no teamwork between the management team and the union leaders and workers. According to P.J. Sloane, this conflict is maximised when both sides are nearly equal in terms of bargaining power (Sloane, 1978, p.31). This is true because without the power to easily defeat the other side, both must work hard to try to win the conflict. This is a very inefficient and costly way to settle problems which should never exist in the first place. If left to market forces, wages and worker efficiency would balance each other (see Block, 1991, 1996a), Kauffman (1992), Petro (1957), Poulson (1982), Reynolds (1982, 1984, 1987)). Surveys of on-the-job satisfaction report that union workers have a lower level of job satisfaction than non-union workers[6] (Reynolds, 1987, p.66). The struggle for power between organised labour and management is a major factor contributing to worker dissatisfaction.[7] Union workers also often find it more difficult to communicate with management on a personal or team level, which also stems from poisoned relationships. Government laws mandating that management must work with the union tie the hands of business and slap it in the face, to add insult to injury. The "invisible hand" of Adam Smith cannot do its job if it is tied behind one's back (Smith, 1776).

The overall effects of labour union policies on the economy are highly detrimental. The unnatural and forced raising of wages causes a misallocation of resources and an inefficient workforce (Reynolds, 1987, p.80). This brings about a lower gross domestic product because of the inability to utilise all of the assets available to the economy. Organised labour is also responsible for higher levels of unemployment than would normally exist in a free-market situation, causing yet more losses to the economy in the form of lost production. The opposition to modernisation also slows down economic progress by hindering production and efficiency. With technological advances come more jobs doing other productive work that can benefit the whole country. As stated by Henry Hazlitt, "Work creates work, and there is no limit to the amount of work to be done" (Hazlitt, 1979, p.150). Opposition to technology also reduces capital investment, further placing production in jeopardy. Economic growth is reduced by socialistic interferences with labour markets. Perhaps the most wasteful effect of union policies is the direct costs of strikes, strike threats, labour consultants, negotiating costs, grievance costs, bureaucratic costs, and government spending which come straight out of the pockets of every worker (Reynolds, 1987, p.82). These and all the other negative effects of labour union policies make them, in Henry Hazlitt's words "The chief antilabour force" (Hazlitt, 1973, p.1). In order to reach the maximum level of production and income, the market must be left alone to allow the natural market forces to prevail.

Despite the foregoing analysis of the negative aspects of unions, many people are likely to conclude that these costs must be borne somehow because of the importance of collective bargaining. Their idea is that without this guarantee, wages would be determined solely by management, and would thus shrink them to that level pertaining in sweat shops, or even perish the thought, to medieval or third world levels.

Nothing could be further from the truth. Wages are determined by productivity, not at the discretion of an employer. Any firm paying a worker worth $20 per hour only $5 per hour would earn a pure profit of $15 during this time period. This would attract hordes of competitors willing to surpass such a low wage,[8] so as to be able to take advantage of this labour "exploitation." But this process ensures that wages will be bid up to productivity levels, or, rather, not deviate from them in the first place.[9]

Evidence for this contention abounds. Wages are high in the non unionised fields of banking, insurance and computers; and in virtually non unionised countries such as Japan, South Korea, Hong Kong and Singapore. Real wages were rising for dozens of decades before the advent of unions in the early 20th century. As for the market process of raising wages to productivity levels, eloquent testimony to the importance of this phenomenon is given by the California and Oregon growers who travel hundreds of miles to attract Mexican workers being paid far less in that country than their productivity levels in the US.

No. Individual "bargaining" will do quite well for raising wages to productivity levels. Workers need collective bargaining like a fish needs a bicycle.

Endnotes

1. This draws our attention to the union claim of job ownership. They attempt to protect jobs in much the same way that one would protect private property. According to Walter Block, "A job, by its very nature, cannot be owned by any one person. Rather, it is the embodiment of an agreement between *two* consenting parties" (Block, 1991, p.494). How is it, then, that these workers could have any more right to a certain job than any other competitor seeking that particular employment?

2. For a critique of the labour economics of Rees, see Block (1996b).

3. These jurisdictional disputes are often bitter and quite costly, with a complex system set up to handle arbitration (Rees, 1989, p.133).

4. These workers are treated rather cruelly, being denounced, asked to quit, or sometimes even beaten (Hazlitt, 1979, p.150).

5. Once again, it is necessary to mention the love the union leaders have for membership dues.

6. This is true in spite of their higher wages and all other benefits of union membership.

7. These policies include make-work rules which increase monotony (Reynolds, 1987, p.67).

8. We much incorporate the costs of finding such workers into the analysis, or implicitly assume there are so many such "underpaid" employees that unearthing them would repay search costs.

9. In real world markets, of course, there is only a tendency toward equilibrium, not the certainty that we will be at this point at any given time.