

## LABOR UNIONS

**A READER ASKS:**

Do labor unions raise the general standard of living?

**NATHANIEL BRANDEN RESPONDS:**

One of the most widespread delusions of our age is the belief that the American worker owes his high standard of living to unions and to “humanitarian” labor legislation. This belief is contradicted by the most fundamental facts and principles of economics—facts and principles which are systematically evaded by labor leaders, legislators and intellectuals of the statist persuasion.

A country’s standard of living, including the wages of its workers, depends on the productivity of labor; high productivity depends on machines, inventions and capital investment—which depend on the creative ingenuity of individual men—which requires, for its exercise, a politico-economic system that protects the individual’s rights and freedom.

The productive value of physical labor as such is low. If the worker of today produces more than the worker of fifty years ago, it is not because the former exerts more physical effort; quite the contrary: the physical effort required of him is far less. The productive value of his effort has been multiplied many times by the tools and machines with which he works; they are crucial in determining the economic worth of his services. To illustrate this principle: consider what would be a man’s economic reward, on a desert island, for pushing his finger the distance of half an inch; then consider the wages paid, for pushing a button, to an elevator operator in New York City. It is not muscles that make the difference.

As Ludwig von Mises observes: “American wages are higher than wages in other countries because the capital invested per head of the worker is greater and the plants are thereby in the position to use the most efficient tools and machines. What is called the American way of life is the result of the fact that the United States has put fewer obstacles in the way of saving and capital accumulation than other nations. The economic backwardness of such countries as India consists precisely in the fact that their policies hinder both the accumulation of capital and the investment of foreign capital. As the capital required is lacking, the Indian enterprises are prevented from employing sufficient quantities of modern equipment, are therefore producing much less per man hour and can only afford to pay wage rates which, compared with American wage rates, appear as shockingly low.” (Planning for Freedom, 2nd ed., Libertarian Press, 1962, pp. 151-152.)

In a free market economy, employers must bid competitively for the services of workers, just as they must bid competitively for all other factors of production. If an employer attempts to pay wages which are lower than his workers can obtain elsewhere, he will lose his workers and thus will be compelled to change his policy or go out of business; if, other things being equal, an employer pays wages which are above the market level, his higher costs will put him at a competitive disadvantage in the sale of his products, and again he will be compelled to change his policy or go out of business. Employers do not lower wages because they are cruel, nor raise

wages because they are kind. Wages are not determined by the employer’s whim. Wages are the prices paid for human labor and, like all other prices in a free economy, are determined by the law of supply and demand.

Since the start of the Industrial Revolution and capitalism, wage rates have risen steadily—as an inevitable economic consequence of rising capital accumulation, technological progress and industrial expansion. As capitalism created countless new markets, so it created an ever-widening market for labor: it multiplied the number and kinds of jobs available increased the demand and competition for the workers services, and thus drove wage rates upward.

It was the economic self-interest of employers, that led them to raise wages and shorten working hours—not the pressure of labor unions. The eight-hour day was established in most American industries long before unions acquired any significant size or economic power. At a time when his competitors were paying their workers between two and three dollars a day, Henry Ford offered five dollars a day, thereby attracting the most efficient labor force in the country, and thus raising his own production and profits. In the 1920’s, when the labor movement in France and Germany was far more dominant than in the United States, the standard of living of the American worker was greatly superior. It was the consequence of economic freedom.

Needless to say, men have a right to organize into unions, provided they do so voluntarily, that is, provided no one is forced to join. Unions can have value as fraternal organizations, or as a means of keeping members informed of current market conditions, or as a means of bargaining more effectively with employers—particularly in small, isolated communities. It may happen that an individual employer is paying wages that, in the overall market context, are too low; in such a case, a strike or the threat of a strike, can compel him to change his policy, since he will discover that he cannot obtain an adequate labor force at the wages he offers. However, the belief that unions can cause a general rise in the standard of living, is a myth.

Today, the labor market is no longer free. Unions enjoy a unique, near-monopolistic power over many aspects of the economy. This has been achieved through legislation, which has forced men to join unions, whether they wished to or not, and forced employers to deal with these unions, whether they wished to or not. As a consequence, wage rates in many industries are no longer determined by a free market; unions have been able to force wages substantially above their normal market level. These are the “social gains” for which unions are usually given credit. In fact, however, the result of their policy has been (a) a curtailment of production, (b) widespread unemployment, and (c) the penalizing of workers in other industries, as well as the rest of the population.

(a) With the rise of wage rates to inordinately high levels, production costs are such that cutbacks in production are often necessary, new undertakings become too expensive, and growth is hindered. At the increased costs, marginal producers—those who have been barely able to compete in the market—find themselves unable to remain in business. The overall result: goods and services that would have been produced are

not brought into existence.

(b) As a result of the high wage rates, employers can afford to hire fewer workers; as a result of curtailed production, employers need fewer workers. Thus, one group of workers obtains unjustifiably high wages at the expense of other workers who are unable to find jobs at all. This—in conjunction with minimum wage laws—is the cause of our widespread unemployment problem today. Unemployment is the inevitable result of forcing wage rates above their free market level. In a free economy, in which neither employers nor workers are subject to coercion, wage rates always tend toward the level at which all those who seek employment will be able to obtain it. In a frozen, controlled economy, this process is blocked. As a result of allegedly “pro-labor” legislation and of the monopolistic power that labor unions enjoy, unemployed workers are not free to compete in the labor market by offering their services for less than the prevailing wage rates; employers are not free to hire them. In the case of strikes, if unemployed workers attempted to obtain the jobs vacated by union strikers, by offering to work for a lower wage, they often would be subjected to threats and physical violence at the hands of union members. These facts are as notorious as they are evaded in most current discussions of the unemployment problem—particularly by government officials.

(c) When market conditions are such that producers whose labor costs have risen, cannot raise the prices of the goods they sell, a curtailment of production results, as indicated above; and the general population accordingly suffers a loss of potential goods and services. (The notion that producers can “absorb” such wage increases, by taking them out of profits,” without a detriment to future production, is worse than economically naive; it is profits that make future production possible; the amount of profits that go, not into investment, but into the producers personal consumption, is negligible in the overall economic context.) To the extent that market conditions do allow, producers whose labor costs have risen are obliged to raise the prices of their goods. Then, workers are obliged to raise the prices of their goods. Then, workers in other industries find that their living costs have gone up, that they must now pay higher prices for the goods they purchase. Then, they in turn demand a raise in their industries, which leads to new price rises, which leads to new wage increases, etc. (Union leaders typically express indignation whenever prices are raised; the only prices they consider it moral to raise are the prices paid for labor, that is, wages.) Non-unionized workers, and the rest of the population generally, face this same steady rise in their living costs; they are made to subsidize the unjustifiably high wages of union workers—and are the unacknowledged victims of the unions’ “social gains.” And one observes the spectacle of bricklayers receiving two or even three times the salary of office workers and professors.

It cannot be sufficiently emphasized that it is not unionism as such but government controls and regulations, which make this state of affairs possible. In a free, unregulated economy, in a market from which coercion is barred, no economic group can acquire the power so to victimize the rest of the population. The solution does not lie in new legislation directed against unions, but in the repeal of the legislation that made the present evil possible.

The inability of unions to achieve real, widespread raises in wage rates—to raise the standard of living generally—is in part obscured by the phenomenon of inflation. As a consequence of the government’s policy of deficit spending and credit expansion, the purchasing power of

the monetary unit, the dollar, has diminished drastically across the years. Nominal wage rates have increased considerably more than real wage rates, that is, wages measured in terms of actual purchasing power.

What has further served to obscure this issue is the fact that real wage rates have risen considerably since the start of the century. In spite of destructive and increasing governmental restraints on the freedom of production and trade, major advances in science, technology and capital accumulation have been made and have raised the general standard of living. It should be added that these advances are less than would have occurred in a fully free economy and, as controls continue to tighten, such advances become slower and rarer—as witness current complaints about the rate of our “economic growth.”

It is relevant to consider against what obstacles businessmen have had to fight and to go on producing—when one hears labor leaders proclaiming, in indignant tones, the worker’s right to a “larger share” of the “national product.” To paraphrase John Galt: A larger share—provided by whom? Blank out.

Economic progress, like every other form of progress, has only one ultimate source: man’s mind—and can exist only to the extent that man is free to translate his thought into action.

Let anyone who believes that a high standard of living is the achievement of labor unions and government controls, ask himself the following question: If one had a “time machine” and transported the united labor chieftains of America, plus three million government bureaucrats, back to the tenth century—would they be able to provide the medieval serf with electric light, refrigerators, automobiles and television sets? When one grasps that they would not, one should identify who and what made these things possible.

(For excellent, more detailed discussions of these issues, see Ludwig von Mises, *Planning for Freedom*, especially the chapter entitled “Wages, Unemployment and Inflation”; and Henry Hazlitt, *Economics in One Lesson*, Harper, 1946, especially the chapters entitled “Minimum Wage Laws” and “Do Unions Really Raise Wages?”)

Postscript: After completing the above, I noticed an article in *The New York Times* of September 8 that is too apropos to let pass with acknowledgment. The article, entitled “10 U.A.W. Leaders Find Unions are Losing Members’ Loyalty,” by Damon Stetson, reports that executives of the United Automobile Workers met to discuss the problem of workers’ increasing lack of loyalty to union leadership and union solidarity. One U.A.W. official is quoted as declaring: “How can we get greater loyalty from the individual to the union? All the things we fought for, the corporation is now giving the workers. What we have to find are other things the workers want which the employer is not willing to give him, and we have to develop our program around these things as reasons for belonging to the union.”

Is any comment necessary?

*Planning for Freedom* by Ludwig von Mises is available from amazon.com. *Economics in One Lesson* by Henry Hazlitt is also available from amazon.com.