Trade Unions: The Private Use of Coercive Power

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In this article, I shall consider the nature and consequences of labor-union activities. There are various useful services that unions perform, but my interest will be solely with the social effects of privately exercised coercive power as a means to secure some of their main objectives (e.g., an increase in the remuneration of a particular group of workers).

Forms of Coercive Activities

This power is, in a broad sense, exercised in a twofold manner. First, is via physical violence and sabotage. We find personal intimidation of and assault on competitors, nonstrikers, strikebreakers, and managements; sabotage is inflicted even on nonunion competing firms. That unions can do so with impunity is due to their de facto exemption from society’s normal sanctions against the private use of physical violence and sabotage.¹ Second, and even more important, unions employ a form of coercion that is less commonly regarded as illegitimate, namely, “peaceful coercion” via threats to disrupt the community’s process of economic cooperation through a strike or a strike-threat.

Strike-threat power is the source of the authority unions have won in order to discipline their own willing or unwilling members. It has been used to impair the normal production and exchange rights of nonunion workers, and of course it has been used in attempts to exploit investors.² At times it has even been used detrimentally and ruthlessly against third parties—nonparties to union disputes—who have, in many countries, been denied the right to sue for damages. That is, union power is used not solely against those whose assets or labor are excluded from particular production operations, but against consumers and producers in the community as a whole. Third parties are adversely affected even in the absence of union actions explicitly aimed at them. The disruption of one set of activities throws into disorder the work and lives of others—sometimes a huge number of others.³

¹Professor Hutt died on June 19, 1988.
Due to the fact that the strike is a form of warfare that, when resorted to, requires a strategy and maintenance of morale, it becomes essential during nonstriking, peaceful times to keep alive the war spirit: mistrust and hostility toward the enemy—"the employer."

The threat to strike—"the gun under the table" as Mises called it—like all forms of warfare, can be used for good or noble purposes. Nevertheless, even when the objective is defensible, we are forced to regard all private use of coercive power (whether by boycott or strike) as an intolerable infringement of human freedom. We should condemn the Mafia even if it could be shown that the revenues of racketeering were being used to subsidize opera, cancer research, or civil-rights movements. Similarly, the strike is a form of private warfare. Victory is, as in all warfare, to the strong, not necessarily to the righteous. Yet during the present century, apologists for the unions have adopted "might is right!" as a moral principle.

A Fundamental Market Principle

A principle derived from the classical general theory of value that, I suggest, should be treated by all economists as a fundamental law is as follows: in any society, the flow of goods and services demanded by consumers and investors is optimal in magnitude and composition when each entrepreneur pays the owners of resources needed (for use in the production of individual outputs) the minimum required to entice their services from other applications or to retain them in the production of any particular output the entrepreneur is directing. Under this law, no resource would be employed in a use that consumers value less highly than an alternative use to which the resource could be put. This "law" is, I suggest, universal and subject to no exceptions! The institutions needed to insure that the pricing mechanism shall actually be operated in accordance with this principle are those that define and enforce transferable private property rights. Whether further institutions are needed to assist the process is still a matter of controversy. The antitrust laws of the United States were (under the kindest treatment of the arguments used for their enactment) intended to provide optimal assistance to the process that allocates the utilization of the aggregate stock of assets and the aggregate flow of labor services in conformity with "consumers' sovereignty."

In the sphere of labor, this economic law indicates that the flow of real wages will be maximized, and any degree of unproductive inequality of earning power will be minimized, when every worker desiring employment in any occupation is offered and accepts the minimum essential to secure his employment (i.e., to attract him from leisure or from alternative occupations and then retain his services).
Notwithstanding the compelling logic of this law, the impression certainly survives that, in a free market (i.e., in a strike-free world), workers’ remuneration would be forced down to pitiable levels. But we have never been treated to any rigorous support for that claim. There has certainly been a vast flood of contributions dealing with the issue of a “just” determination of the price of labor. But no consideration has been given to the really vital issue, namely, the crucial relationship of every individual labor cost in every particular project to the aggregate real income of society at large.

**Investor Self-Defense**

When investors recognize their potential vulnerability to strike or strike-threat coercion, they will make full allowance for whatever they judge to be the probability that union power will be used in an attempt to seize part of their capital. In assessing the value they can risk in assets to be devoted to any activity, investors will, to some extent, rely on the unions’ reluctance to kill the goose that lays the golden egg or to unduly harm the goose’s fertility! They will also consider the probabilities that (1) although in a society that tolerates strike-threat coercion, technological progress will be discouraged, it will not come to an end; labor-economizing and capital-saving achievements in noncompeting fields will still be raising the source of demands for most prospective outputs; (2) in spite of the depressive effects of the use of union power, aggregate income will continue to increase through continued thrift (provision for the future that normally takes the form of the net accumulation of assets); and (3) governments will find it expedient to inflate (reduce the value of the money unit), which, *when this action is unanticipated*, will have a positive production and employment effect in the short run (however disastrous it may be in the long run).

Investors today expect managements to be expert in (as far as possible) avoiding capitulations to strike-threat pressures, but they know they cannot rely on the managers being wholly successful. They simply know that the avoidance of capitulations to union power brings gains, while capitulations to particularly heavy wage demands will produce losses. In every decision to retain, replace, or provide (accumulated) assets in any productive activity, investors must (if, as entrepreneurs, they are forecasting rationally) regard union property seizures as prospective costs that reduce profitable investment in that activity. From society’s angle, then, the consequences of union power so used will be that the composition of the community’s assets stock will be adversely affected. In general, the most productive and wage-multiplying types of assets are the least versatile and therefore the most exploitable. Investors will, when possible, avoid such investments until, and if, through wise policy, exploitation
by unions becomes less profitable. Until that happens, the damage to the material well-being of labor as a whole is inevitable but incalculable.

**Labor’s Inferior Bargaining Power**

I must now give some attention to the suggestion that unions wield “counter-vailing power.” It is said that unorganized workers have “inferior bargaining power” in the determination of wage rates unless they can resort to the strike-threat. This influential fallacy was put very lucidly by the famous English judge, Lord Francis Jeffrey, in 1825, very shortly after the repeal of the British Combinations Law. He said:

> A single master was at liberty any time to turn off the whole of his workmen at once—100 or 1000 in number—if they would not accept the wages he chose to offer. But it was made an offense for the whole of the workmen to leave the master at once if he refused to give the wages they chose to require.

This sounds, of course, like an intolerable injustice, and so it appeared to the illustrious judge. But that word master, like the world employer today, really refers to the residual claimant on the value of what is being produced.

In the absence of monopoly or monopsony abuse, and provided there is no government or private restraint on the loss-avoidance, profit-seeking incentives, it will be to the investors’ advantage that managers shall attract or retain all workers the value of whose inputs permits a marginal prospective yield above, or not less than, their predicted marginal-output values. But, if there is no monopolistic or monopsonistic abuse, a corporation will have no power to influence the wage rates that will be to its advantage to offer. Of course, the management’s purely interpretive discretion in judging what wage rates to offer may well be wrong, in either direction.

If monopolistic or monopsonistic power exists, it is very easy to raise the value of inputs and/or outputs by excluding competing resources—labor or capital—from an occupation, industry, or area. But it is very difficult indeed to exploit complementary or noncompeting factors, such as capital by labor, or labor by capital.

We have already seen how the flow of capital into nonversatile or otherwise exploitable assets can be reduced when investors are served by vigilant managements and attempts are made to exploit them. For similar reasons, labor is unexploitable, unless managements can somehow suppress competing demands for the workers they acquire. The circumstances required for monopsonistic action to reduce wage rates are those that cause labor to be shut into a firm, occupation, industry, or area. This has occurred and may again occur. The most obvious example concerns what is known as the “lock-in contract,” under which an employee who leaves a corporation is subject to some
penalty, such as loss of pension rights. But if abuses of this kind are indeed important, they are easily remedied. Lock-in contracts can be declared void and illegal except when they are a protection for investments in human capital (resembling patents to protect investments in research) or unless the contract is a means of repayment of beneficial loans to the employees, such as for moving expenses, and so forth.

Nevertheless, in theory, the monopsonistic exploitation of labor is conceivable. This is not a matter of controversy. The most likely form in which such exploitation of labor might happen (other than through lock-in contracts) is where, by subtle fraud, workers are inveigled into specialized training for an occupation in which they find themselves trapped. I know of no concrete illustration of such a situation. But if it should occur, it would still not justify the private use of force as countervailing power.

Fortunately, there is one simple test for determining whether strike-threat power has countervailed an exploitation that has forced or maintained the price of labor below its free-market value. The test is whether any workers not presently employed in firms paying the increased wage rates would be prepared to accept work of the same quality and quantity for lower wage rates. But after more than half a century of interest in this subject, I have discovered no case studies in which proof of previous monopsonistic exploitation has been demonstrated in this way.

Unions and Freedom

The most important freedom that is denied through union power is, indeed, that of the right of all individuals to accept any employment that they believe will improve their earnings and prospects. The "closed shop" or the "union shop"—devices that have been inflicted on managements in so many parts of the world—must appear to any detached student not only as flagrantly regressive but as an intolerable negation of individual freedom. Yet even under what are called "right-to-work laws," union power can force managements to deny the right of those persons who wish to raise their contributions to the common pool of income from doing so. Juveniles and the less fortunate adults (especially those who are initially less well qualified or those who belong to what Demsetz has called "nonpreferred groups," (such as blacks, nonwhites, Jews, ugly women, and elderly women) can be prevented by various subterfuges (such as color bars, demarcation obstacles, apprenticeship barriers, occupational licensing, and—most effective of all—enforcement of "the rate for the job") from improving their earnings and prospects of earnings.

Hence if by "union power" we mean the ability to coerce managements through the threat of organized disruption, the use of that power may enable potential strikers to engross for themselves the effective ability to achieve skills
in, or to become "attached" to occupations that would otherwise be open to interlopers. The privileges so gained must be balanced against the detriments suffered by those who are debarred from employment at wage rates that it would have been profitable to offer in a truly free labor market and that prospective recipients believe could raise their earnings and prospects.

Unionists often claim that individuals' freedom is infringed because in any firm in which they work, they have no voice in the making of the rules to which they are subject or in the administration of those rules. Elliott J. Berg attributes to such well-known "labor economists" as J. Dunlop, Clark Kerr, F. Harbison, and C. Myers the view that workers "live in a state of perennial protest arising from the frustrations implicit in being governed by a web of rules they usually have little to do with making." There is no legal or other barrier to the workers' volunteering to bear most of the risks, by accepting the residual share, if they so wish. They will then automatically have the right to make and administer all the rules under which they work, appoint all the managers, hire all the assets, and borrow all the circulating capital required. In that case, their earnings will be wages plus profits or minus losses, just as the investors' earnings are interest plus profits or minus losses. But the workers will then sacrifice the security of earnings and employment continuity for which the simple wage contract provides. It will, of course, also entail an inappropriate division of function so the majority of investors can spread their risks over many ventures, while workers who put their future earnings at risk cannot spread risks in that form. A sharing of risk and management is, however, by no means out of the question. But what is really important is that the rules and their administration by the managers would then be unlikely to differ one iota from what they are with investors in the conventional sense accepting the residue.

The Employer

Unfortunately, the word employer suggests subordination to the "owners." But the suppliers of the assets and circulating capital are just as subordinate as the workers to the power of "consumer sovereignty." Consumers are the true "employers." A firm's assets are employed just as are the workers. The services of both are embodied in output. Investors willingly submit to the ruthlessness of market discipline. Seen from this angle, investors' acceptance of the residual share from the sale of output provides the most important form of social security for the workers that society offers. Stressing this truth does not of course imply that there is no problem of justice to individuals in the application of social discipline through managerial authority.

Union power is expressed partly through the promise of votes to or the subsidization of legislators at all levels (federal, state, and municipal) and reliance on lobby power generally. Legislation has indeed conferred upon the
unions far-reaching immunities before the law. Second, and more seriously, it has, over the years, provided protection for union members from the competition of the underprivileged. Via minimum wage enactments plus “welfare” handouts, occupational licensing, prolonged unproductive schooling, and so on, private objectives sought through government have displaced social objectives sought through the market.

Union power, whether exercised through government or through the strike-threat, far from redistributing income from the rich to the poor, has had exactly the opposite effect. Yet opinionmakers and the public have been brainwashed into believing that greater distributive justice has been its aim and achievement. Although at times, through private coercion, some part of investors’ property has been seized and squandered, backlash reactions upon the subsequent composition of the assets stock have soon exceeded the gains. Any long-run benefits that some unions have won for their members have chiefly been at the expense of their competitors—laid-off or excluded workers—and at the expense of all as consumers and investors in noncompeting fields. The system has had a formidably depressive effect upon aggregate purchasing power (as distinct from aggregate money-spending power)—i.e., it has repressed the wages flow and real income and has therefore caused creeping, crawling, chronic inflation to be politically expedient.

The media consistently provide the clearest evidence of the impoverishing process. But they seldom perceive (or attempt or dare explain) the reason. I can here usefully refer to just one example: the editorial introduction of Elizabeth Beardsley Butler’s Women and the Trades, edited by Maurine Weiner Greenvald. In terrifying innocence, Ms. Greenvald refers to “thousands of pages of research about labor exploitation” contained in “an arsenal of ammunition for social reforms.”\footnote{12} Ms. Greenvald continues by explaining that Ms. Butler “was one of the many foot soldiers in the war against industrialization.”\footnote{13} For me, these passages, written in 1984, express the real problem. Ms. Greenvald takes it for granted that those private entrepreneurs whose perception of the availability of the women whom they connected with consumers, by offering industrial employment, were exploiters of the women they so helped. In fact, they were among the real philanthropists of their age, for they were raising the living standards of the women to whom they offered jobs and prospects on terms that were better than any alternatives that society could then offer.

The truth is that nearly all the activities initiated under slogans such as “the War on Poverty” have, in fact, been poverty-creating. But will it ever be politically possible to restrain the most blameworthy poverty-creators of all (among the myriad of special interests that command governments), namely the AFL-CIO in the United States, the Trades Union Congress (T.U.C.) in Britain, and similar organizations in other countries? Yet politicians are often motivated to emulate the strike-threat system by enacting minimum-wage rates that make it an offense to employ any person the value of whose product is less
than the stipulated minimum. This type of constraint, whether misguided or cynically exploited, has survived after two centuries of extremely clever propaganda. The impression has been left that the low marginal productivity of the poor and hence their low incomes are to be blamed in some way on those who employ them. Everyone is allowed to believe that the poor are the victims of “exploitation” by their employers.

Sweated Labor

Early in the British Industrial Revolution, those who offered employment to the very poor came to be described by the abusive epithet, sweaters. The stereotype of the sweater was of a small businessman (often an immigrant and Jewish) carrying on his back a sack of materials cut to a required pattern. 14 The profession of these sweaters was that of a small entrepreneur—typically, a clothing manufacturer. Sweaters would cut the different parts, for instance, needed to make a shirt. They would then call on houses in the poorer districts and seek out suitable housewives not fully employed in household chores, and they showed these women how to sew the different parts together. Later, they again would call to collect the product and pay for the outputs. They had no means of preventing any of these housewives from obtaining better-paying jobs. Yet the opprobrium worked up against this class was enormous. The sweaters were accused not only of underpaying, but of overworking these women, all of whom voluntarily and usually eagerly accepted the contracts offered them. Indeed, these small entrepreneurs were charged with working the seamstresses they provided with jobs to an early death. British humorist Thomas Hood’s famous “Song of the Shirt” offered the refrain: “Stitch, stitch, stitch” followed by the line: “It is not linen you’re wearing out, but human creatures’ lives!”

The term sweated labor became common parlance in British socialist circles, while the famous historians of the trade union movement, Sydney and Beatrice Webb, used their literary skills to keep the notion alive. It is important to remember that these greatly aligned small entrepreneurs were never accused of using tricks to prevent other entrepreneurs from entering their territories. But the antisweating movement, largely financed, in its early years at least, by factory owners who complained about “the unfair competition” of small domestic manufacturers (who were not forced, as they were, to invest in expensive machinery), has continued right down to this day.

It was really a shock to see Dan Rather on a CBS news report resuscitate the myth and dress it up in modern clothing. He staged a woman forced to work at home on piecework for a mere pittance, with total earnings well below the minimum wage rate, in spite of deplorably long hours. Dan Rather’s aim was, of course, an attempt to justify legislation that prohibited people from earning any income at all unless they could produce outputs that were salable
(to the scoundrels engaged in this kind of business) for sums equal to or exceeding the minimum specified. How the hearts of millions of CBS listeners must have bled for the poor woman portrayed and the thousands of others like her!

But the only “exploiters” of such women are governments or private organizations (such as labor unions) that impose restraints on the free-market price of labor and so destroy entrepreneurial incentives to offer better-remunerated employments to all. Every such restraint is the result of coercion—by government or by the private use of the right to disrupt (e.g., the right to boycott, to strike, or to use intimidation and violence generally for the same purpose).

Unions and Blacks

In the United States, black people have been most sedulously used by professional white and black “liberals” and unionists for their private ends. So-called liberal politicians have persuaded black voters to renounce the protection and assistance of the market and subject themselves to the mercy of the state (e.g., to the rulers of special-interest organizations).

The overwhelming majority of black leaders who attended a recent meeting of the Urban League and NAACP’s Joint Summit Conference on the Crisis in the Black Family saw things differently. In a brilliant article in The American Spectator, William Tucker reports how “speaker after speaker recited the indictment that charges White America, once again, with consigning Black America to a permanent internal exile.” Blacks, reported Tucker, “remain hypersensitive to every one of life’s little frustrations, particularly identifying every adverse event as some new form of ‘discrimination.’ ”15 Referring to the fact that about half of all black children in the United States today are “illegitimate,” Tucker reports that today about three-quarters of them are being reared without the influence of a father.16 This is a recent and still developing phenomenon. Had the conference been genuinely concerned, however, with the well-being of American blacks, they would have directed their main attention courageously to the frightening prospect this situation is creating. Instead, the blame was usually laid on those hackneyed scapegoats, “joblessness, discrimination, poor education, poor housing, and the failure of the government to give us our share.”17

Tucker interprets this as evidence that blacks as a whole “still refuse to recognize that it is the incredibly misguided ‘charity’ of the welfare system that is breaking up their families.” He alleges that “the welfare process” is creating “vested interests that are going to be very, very hard to dislodge” if an attempt to reverse the trend is to be made in the future.18

Tucker most effectively quotes George Gilder’s “almost totally ignored book, Visible Man.” Gilder says:
The welfare system makes an irresistible offer to every female over the age of sixteen. The State says, so to speak, to every black girl, “If you have a baby right now, we will give you your own apartment, free medical care, food stamps, and a regular income over the next twenty years. If you have another baby soon after, we will increase your allotment.” How many teenage girls anywhere—Black or White, poor or affluent—can afford their own apartment and pay their own medical expenses at age sixteen? These teenage girls . . . are not morally weak, and they are not sexually lascivious. They are simply rational human beings making the most intelligent choice on how to improve.¹⁹

Neither Tucker’s nor Gilder’s important contributions have, however, dealt mainly with what I believe to have been the most serious detriment that has brought about the current situation—namely, acquiescence in the pseudoprinciple of “the rate for the job” as a criterion for determining labor’s just remuneration plus faith in the beneficence of wage rates enacted under nonmarket coercion. Had it not been for the influence of this pseudoprinciple (conspicuous in the rhetoric of the collective determination of the price of labor over the past century), blacks would, I submit, have been well on the way to enunciating a salable program developed to mitigate and solve a majority of the problems that now face them.

The National Urban League, in its report of this conference, frankly admits that “29 percent of all Black men between the ages of 20 and 64 . . . were unemployed in 1982.”²⁰ But as to causes, the League’s research director refers only to inadequate schools, high arrest rates, and proportionately high murder and suicide rates. There seems to have been a reluctance to admit that the major cause of the damage wrought on the black people was due to the unwillingness of their community to fight aggressively for well-paid employment by deliberately reducing their per capita demands for wage compensation.

To sum up, in a free society, aggregate real income is maximized and inequalities of income are minimized when every person who wishes to be employed in any undertaking is offered and accepts the minimum necessary to be attracted from leisure or from other pursuits or employments, while those who provide the services of the assets they own are also paid the minimum necessary to obtain that provision or to attract their services from other occupations.

Hence, not a solitary cent of aggregate income has ever been transferred through strike-threat pressures from investors as a whole (the providers and owners of assets) to workers as a whole (the users of assets). The consequences have clearly harmed both groups, more or less in the same proportion, with regressive consequences on the aggregate wages flow. The effects upon the internal flow of savings and the import of capital are of course important, but there has never been a better mechanism for fructifying thrift and, thus, of insuring the advance of economic development than through competition in the free market.
One hears everywhere, however, that the political influence of the unions and the strength of the AFL-CIO and the British T.U.C. are so great that all who contemplate legislation to curb their power to deplete the wages flow are pursuing a hopelessly lost cause—a political will-o-the wisp. Certainly Parliament in Britain has tried to foster unionism by legislation that confers a monopoly of bargaining power upon a single union with the right to demand compulsory membership for all employees. This is a stark reality that we must face. And the position is not so different in the United States. But have not circumstances been creating a situation in which the great supposed lost cause can be turned into a triumphant battle cry?

The political influence of the labor unions, however, expressed largely through the federated bodies that I have been blaming (the AFL-CIO and the T.U.C.), has throughout been impoverishing in the worst sense of that term, insofar as that influence has been used especially for the benefit of union membership; i.e., it has aimed at the entrenchment of privileged employment and the protection of the union officials' "profession." In other respects, while those representatives whom the union organizations support or finance may occasionally have used their powers in an enlightened manner for the common good, as spokesmen for the unions they have pleaded for and lobbied for the most sordid of special interests; and in this role they appear to have been conspicuously unconcerned about the interests of the working class as a whole.

Notes

1. There is a large literature dealing with coercion of this type. Sylvester Petro's contributions are most important. E.P. Schmidt's *Union Power* (Los Angeles: Nash, 1973), especially chapter 9, is another outstanding analysis and exposure of the situation as it still exists today.

2. Yet investors have taken the risk of providing labor's tools—the assets that multiply the yield to human effort. Moreover, investors continuously finance replacement of materials and work in progress.

3. The New York transit strike of 1966 is an apt example. The British coal strike of 1926 was almost as disastrous for the uninvolved community as the general strike of that year.


5. Investment in that form must certainly decline relatively to investment in non-unionized activities or in more versatile—less specialized—resources.

6. Between 1799 and 1825, laws were aimed at strengthening the ancient common law against restraint of trade. Approximately forty statutes applying to particular trades or industries were enacted against monopolistic pricing and wage-rate fixing.

8. That is, below the wage rates that would be determined in the light of wage rates in alternative employments open to the workers concerned.

9. Sometimes called "equal pay for equal work," "the standard rate," or "comparable worth."


11. Ibid., pp. 80–82.


13. Ibid., p. xi.

14. There was a definite tone of anti-semitism about the British antisweating movement of the nineteenth century.


16. Ibid., p. 15.

17. George Gilder, quoted in ibid., p. 15.

18. Ibid., p. 15.

19. Ibid., p. 15.

20. As reported by UPI in the Dallas Morning News, August 1, 1984.