Can Labor Unions Restrict Wages in a Free Market?

by Murray N. Rothbard

It might be asserted that labor unions, in exacting higher wage rates on the free market, are achieving monopoly prices. However, it is *not* true that a union wage rate could ever be called a monopoly price. For the characteristic of the monopolist is precisely that he monopolizes a factor or commodity. To obtain a monopoly price, he sells only part of his supply and withholds selling the other part, because selling a lower quantity raises the price on an inelastic demand curve. It is the unique characteristic of labor in a free society, however, that it *cannot* be monopolized. Each individual is a self-owner and cannot be owned by another individual or group. Therefore, in the labor field, no one man or group can own the total supply and withhold part of it from the market. Each man owns himself.

A monopolist's action is always limited by loss of revenue from the withheld supply. But in the case of labor unions, this limitation does not apply. Since each man owns himself, the "withheld" suppliers are *different people* from the ones getting the increased income. If a union, in one way or another, achieves a higher price than its members could command by individual sales, its action is *not* checked by the loss of revenue suffered by the "withheld" laborers. If a union achieves a higher wage, some laborers are earning a higher price, while others are excluded from the market and lose the revenue they would have obtained.

These discharged workers are the main losers in this procedure. Since the union represents the remaining workers, it does not have to concern itself, as the monopolist would, with the fate of these workers. At best, they must shift to some other — nonunionized — industry.

The trouble is, however, that the workers are less suited to the new industry. Their having been in the now-unionized industry implies that their worth in that industry was higher than in the industry to which they must shift; consequently, their wage rate is now lower. Moreover, their entry into the other industry depresses the wage rates of the workers already there.

Consequently, at best, a union can achieve a higher, restrictionist wage rate for its members only at the expense of lowering the wage rates of all other workers in the economy. Production efforts in the economy are also distorted. But, in addition, the wider the scope of union activity and restrictionism in the economy, the more difficult it will be for workers to shift their locations and occupations to find nonunionized havens in which to work. And more and more the tendency will be for the displaced workers to remain permanently or quasi-permanently unemployed, eager to work but unable to find nonrestricted opportunities for employment. The greater the scope of unionism, the more a permanent mass of unemployment will tend to develop.

Unions try as hard as they can to plug all the "loopholes" of nonunionism, to close all the escape hatches where the dispossessed workmen can find jobs. This is termed "ending the unfair competition of nonunion, low-wage labor." A universal union control and restrictionism would mean permanent mass unemployment, growing ever greater in proportion to the degree that the union exacted its restrictions.

It is a common myth that only the old-style "craft" unions, which deliberately restrict their occupational group to highly skilled trades with relatively few numbers, can restrict the supply of labor. They often maintain stringent standards of membership and numerous devices to cut down the supply of labor entering the trade. This direct restriction of supply doubtless makes it easier to obtain higher wage rates for the remaining workers. But it is highly misleading to believe that the newer-style "industrial" unions do not restrict supply. The fact that they welcome as many members in an industry as possible cloaks their restrictionist policy.

Unemployment by Decree

The crucial point is that the unions insist on a minimum wage rate higher than what would be achieved for the given labor factor without the union. By doing so, they necessarily cut the number of men whom the employer can hire. *Ergo,* the consequence of their policy is to restrict the supply of labor, while at the same time they can piously maintain that they are inclusive and democratic, in contrast to the snobbish "aristocrats" of craft unionism.

In fact, the consequences of industrial unionism are more devastating than those of craft unionism. For the craft unions — being small in scope — displace and lower the wages of only a few workers. The industrial unions, larger and more inclusive, depress wages and displace workers on a large scale and, what is even more important, can cause permanent mass unemployment.

The unemployment and the misemployment of labor, caused by restrictionist wage rates, need not always be directly visible. Thus, an industry might be particularly profitable and prosperous, either as a result of a rise in consumer demand for the product or from a cost-lowering innovation in the productive process. In the absence of unions, the industry would expand and hire more workers in response to the new market conditions. But if a union imposes a restrictionist wage rate, it may not cause the unemployment of any current workers in the industry; it may, instead, simply prevent the industry from expanding in response to the requirements of consumer demand and the conditions of the market. Here, in short, the union destroys *potential* jobs in the making and imposes a misallocation of production by preventing expansion. It is true that, without the union, the industry will bid up wage rates *in the process* of expansion; but if unions impose a higher wage rate at the beginning, the expansion will not occur.

Why Workers Agree

Some opponents of unionism go to the extreme of maintaining that unions can *never* be free-market phenomena and are always "monopolistic" or coercive institutions. Although this might be true in actual practice, it is not *necessarily* true. It is very possible that labor unions might arise on the free market and even gain restrictionist wage rates.

How can unions achieve restrictionist wage rates on the free market? The answer can be found by considering the displaced workers. The key problem is this: Why do the workers *let themselves* be displaced by the union's minimum wage scale? Since they were willing to work for less before, why do they now meekly agree to being fired and looking for a poorer-paying job? Why do some remain content to continue in a quasi-permanent pocket of unemployment in an industry, waiting to be hired at the excessively high rate? The only answer, in the absence of coercion, is that they have adopted on a commandingly high place on their value scales the goal of *not undercutting union wage rates.* Unions, naturally, are most anxious to persuade workers, both union and nonunion, as well as the general public, to believe strongly in the sinfulness of undercutting union wage rates.

This is shown most clearly in those situations where union members refuse to continue working for a firm at a wage rate below a certain minimum (or on other terms of employment). This situation is known as a *strike.* The most curious thing about a strike is that the unions have been able to spread the belief throughout society that the striking members are still "really" working for the company even when they are deliberately and proudly *refusing* to do so. The natural answer of the employer, of course, is to turn somewhere else and to hire laborers who *are* willing to work on the terms offered. Yet unions have been remarkably successful in spreading the idea through society that anyone who accepts such an offer — the "strikebreaker" — is the lowest form of human life.

To the extent, then, that nonunion workers feel ashamed or guilty about "strikebreaking" or other forms of undercutting union-proclaimed wage scales, the displaced or unemployed workers agree to their own fate. These workers, in effect, are being displaced to poorer and less satisfying jobs voluntarily, and remain unemployed for long stretches of time *voluntarily.* It is voluntary because that is the consequence of their voluntary acceptance of the *mystique* of "not crossing the picket line" or of not being a strikebreaker.

There are undoubtedly countless numbers of workers who do not realize that their refusal to cross a picket line, their "sticking to the union," may result in their losing their jobs and remaining unemployed.

When the People Learn

As for the unions, the consequences of their activity, when discovered (for example, displacement or unemployment for oneself or others), will be considered unfortunate by most people. Therefore, it is certain that when knowledge of these consequences becomes widespread, far fewer people will be "pro-union" or hostile to "nonunion" competitors.

Such conclusions will be reinforced when people learn of another consequence of trade union activity: that a restrictionist wage raises costs of production for the firms in the industry. This means that the marginal firms in the industry, the ones whose entrepreneurs earn only a bare rent, will be driven out of business, for their costs have risen above their most profitable price on the market — the price that had *already* been attained. Their ejection from the market and the general rise of average costs in the industry signify a general fall in productivity and output, and hence a loss to the consumers. Displacement and unemployment, of course, also impair the general standard of living of the consumers.

Unions have had other important economic consequences. Unions are not *producing* organizations; they do not work for capitalists to improve production. Rather they attempt to persuade workers that they can better their lot at the expense of the employer. Consequently, they invariably attempt as much as possible to establish work rules that hinder management's directives. These work rules amount to preventing management from arranging workers and equipment as it sees fit. In other words, instead of agreeing to submit to the work orders of management in exchange for his pay, the workers now set up not only minimum wages, but also work rules without which they refuse to work.

Everyone Loses

The effect of these rules is to *lower the marginal productivity of all union workers.* The lowering of marginal value-product schedules has a two-fold result:

1. it itself establishes a restrictionist wage scale with its various consequences, for the marginal value product has fallen while the union insists that the wage rate remain the same; and

2. consumers lose by a general lowering of productivity and living standards.

Restrictive work rules therefore also lower output. All this is perfectly consistent with a society of individual sovereignty, however, provided always that no force is employed by the union.

To advocate coercive abolition of these work rules would imply literal enslavement of the workers to the dictates of consumers. But, once again, it is certain that knowledge of these various consequences of union activity would greatly weaken the voluntary adherence of many workers and others to the *mystique* of unionism.

Unions, therefore, are theoretically compatible with the existence of a purely free market. In actual fact, however, it is evident to any competent observer that unions acquire almost all their power through the wielding of force, specifically force against strikebreakers and against the property of employers. An implicit license to unions to commit violence against strikebreakers is practically universal. Police commonly either remain "neutral" when strikebreakers are molested or else blame the strikebreakers for "provoking" the attacks upon them. Certainly, few pretend that the institution of mass picketing by unions is simply a method of advertising the fact of a strike to anyone passing by.

When unions are permitted to resort to violence, the state or other enforcing agency has implicitly delegated this power to the unions. The unions, then, have become "private states."

Frustrating the Market

We have investigated the consequences of unions achieving restrictionist prices. This is not to imply, however, that unions *always* achieve such prices in collective bargaining. Indeed, because unions do not own workers and therefore do not sell their labor, the collective bargaining of unions is an artificial replacement for the smooth workings of "individual bargaining" on the labor market. Whereas wage rates on the nonunion labor market will always tend toward equilibrium in a smooth and harmonious manner, its replacement by collective bargaining leaves the negotiators with little or no rudder, with little guidance on what the proper wage rates would be.

Even with both sides trying to *find* the market rate, neither of the parties to the bargain could be sure that a given wage agreement is too high, too low, or approximately correct. Almost invariably, furthermore, the union is not *trying* to discover the market rate, but to impose various arbitrary "principles" of wage determination, such as "keeping up with the cost of living," a "living wage," the "going rate" for comparable labor in other firms or industries, an annual average "productivity" increase, "fair differentials," and so forth.