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GROWING UNION POWER AND THE PUBLIC INTEREST

*by David McCord Wright**

To understand union power we must first understand unions. After all people would not have been joining unions all these years purely as the result of force and without some reason. "Why unions?" we must ask before discussing whether they can be too strong. Unions, as I see it, came into being for the following purposes: To improve working conditions; to limit arbitrary and unfair discrimination between individuals on the job; to give more "security"; to give "companionship"; to give "more." All these are *prima facie* good things. Why then speak of "too much" union power?

Unfortunately it is a fact that many good principles and good aims, pushed too far, become evils. The Greeks had an idea that truth and justice did not remain unalterably with any one side or cause, but moved from one group to another as certain qualities became "excessive." My feeling is that this is what has happened with unions. But what *I* think is not important. What is important is whether the reasoning and the facts on which I base my opinion are correct. Let us examine them.

I

We may begin with the union aim of "more" — not because it is the only aim, but because it is the one we hear most about, and because it makes a convenient starting point for opening out the whole problem. Professor Meltzer has just said that the proportion going to "labor" and "management" has not greatly changed since unions became strong. I have read this too and I teach it to my students, albeit with some misgivings. For I am constitutionally allergic to sweepingly simple statistical generalizations, especially when they depend as much on definitions as this one does. However, leaving such doubts aside — even though, on balance, the proportion going to aggregate *real* wages may not be changing much — this is far from being the same thing as saying that unions have had no influence on the economy, or that *individual* unions have not made great economic gains for their *particular* group of members. The questions, then, to ask are: Has the influence, on balance, been good? Has the gain for the members, still having jobs, been a net gain for society, or has it been at the expense of other groups?

Simple arithmetic, assuming the facts to be as given, will show that a great part of the *proportional* gains of strong unions must have been at the "expense" of other workers. For if the proportion going to the whole group has *not* grown and the proportion going to a part of the working group *has* grown, it must have grown at the proportional "expense" of other members of the group. Whether this is good or bad depends upon a number of considerations. It is clear, however, that the race among unions (and union leaders) to maintain or achieve *differential* position greatly increases the inflationary bias

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of the movement as a whole. But let us first discuss inflation as an aggregate problem and then come back to particular groups.

One usually hears it said that money wage increases are not inflationary and are "all right" (not necessarily the same thing) if they do not exceed gains in "productivity." But the question here is, whose productivity? As Professor Rees remarks, "It is now generally well realized that output per man-hour does not necessarily reflect the contribution of production workers to changes in efficiency. It can rise because production workers work harder or are more skilled. However, it can also rise because more capital or more non-production workers are used per production worker . . . improved quality of purchased materials . . . technical change."[1] And Dr. Myers remarks the "productivity index may move upward" (for the reasons given by Rees) "even though physical labor effort and job responsibility may be *lower* as a consequence of improved technology . . . It is important to emphasize that the measure of productivity involves no ethical connotation of what workers or employees generally 'contribute' to output and hence what they 'should' receive in wages or salaries."[2] Finally, Dr. Rees remarks that "after 1919 output per unit of *capital*" has risen.[3] As I see it, the inflationary pressure of the union demand for higher money wages has been contained, as much as it has been, largely through the ingenuity of *management* and inventors in devising ever more ingenious ways of using more and more productive capital per worker.

I have been tempted to paraphrase the well-known union song as follows:

Management Song

They've been given many millions that they never thought to earn
But without our care and risking there would *be* no wheels to turn.

Seriously speaking our society takes so completely for granted the activities of the conceiving mind, the risk bearer, and the saver, that it is in danger not merely of forgetting but also of stifling them. However let us for the moment get on with the problem of aggregate inflation.

Without getting into what has become a sort of numbers game, I am obliged to say that I feel union action in many key industries has pushed money wages far ahead of productivity. Merely as a sample let me give the following from data by T. A. Anderson.[4] In the tobacco industry between first quarter 1955 and first quarter 1959 wages increased 23.0, prices 8.7 but "productivity" 30.2. In iron and steel, however, during the same period, wages increased 34.8, prices 26.5, but the productivity only 11.3. In electrical machinery, wages increased 19.5, prices 20.7, and productivity not at all. The whole table is recommended.

One can, of course, alter base periods, shift classifications and so on. Since this part of the problem has been so exhaustively discussed, let us proceed to develop the implications for economic activity of the tendency for money wages

1 Albert Rees, *Patterns of Wages, Prices and Productivity,* in WAGES, PRICES AND PRODUCTIVITY 21 (1959).
2 Charles G. Myers, *Crucial Issues in Wage-Price Relationships,* in WAGES, PRICES AND PRODUCTIVITY 3 (1959).
3 Rees, *op. cit. supra* note 1, at 29.
4 Joint Congressional Committee, *Hearings,* Part 7, p. 2156 (1959).

in many key industries to rise faster than productivity, which, I submit, the balance of the evidence clearly shows.

In my symposium, *The Impact of the Labor Union,*[5] you will find the following jingle:

We all or nearly all consent
If wages rise by ten per cent
It puts a choice before the nation
Of unemployment or inflation.

The analysis here does not imply any "iron law" of real wages but it does mean that aggregate money wages cannot, on the average, greatly exceed productivity growth without there being trouble. Most people can see the inflation side of the problem, but what about the unemployment? Surely, if only the banks are allowed to create enough money, there will be enough "demand," and that will be that. Thus any unemployment will be blamed on tight money and high interest.

Analyses of this sort usually have behind them a picture of an economic system in which all production is rigidly, immediately, and mechanically tied to consumption. Only if consumption rises will investment be undertaken. And if it rises, investment *will,* it is thought, be undertaken. "Demand," reversing orthodox theory, "creates its own supply."

Unfortunately this picture is quite wrong. A key section of our economic system is found in investment output — the inducement of which is frequently not immediate consumption but long range profit perspective: the businessman's *forecast* of the relative movements of cost and prices. There cannot be full employment in our society unless, on balance, a social atmosphere and cost-price outlook exist which induce a number of concerns to make *long-range* commitments of this sort. And, even if we think only of immediate consumption industries, brewing, for example, and assume that beer sales are rising, employment will *not* increase if no perspective of net profit, adequate to risk, can be seen.[6] I do not, of course, ascribe to the crude fallacy that mere high prices due to wage gains in excess of productivity will cause inflation. But what the cost-price maladjustment does do is to put the monetary authority in the position *either* of underwriting the inflationary wage increase — and hence having inflation — or else allowing unemployment.

Unfortunately, however, the situation is not even as simple as that, or as given in my jingle. The last line indeed could be changed to read "unemployment *and* inflation." How so? The answer lies in the forecast-of-profit analysis of the last paragraph. The analysis there given shows how inflation and unemployment can exist at the same time, and also how too rapid a rate of wage increases, *even* when accompanied by soft money, can cause depression and unemployment. The investor — on whom employment in large part depends — is not merely concerned with present sales. He is concerned with the *perspective* of profit. He is bound to allow for the fact that the inflation may come to an end, or that at any rate it won't be as fast as the cost increases. He is bound

5 WRIGHT (ed.), THE IMPACT OF THE LABOR UNION 79 (1951).
6 For a detailed discussion of this theory see WRIGHT, A KEY TO MODERN ECONOMICS, ch. IV, § 2 (1954).

to have some concept of normal value or price and to feel that departures from it involve increasing risk. Thus present inflation combined with uncertainty over the future will not necessarily give full employment. On the contrary, it may turn the boom into a smash.[7] We may see some such development before too long. Nor, in my opinion, is it sound to lay the blame *merely* on "administered" prices. People who use this slogan are too often thinking in terms of a stationary society in which a consumer goods market needs to be "cleared" of inventory *already* produced. But such an analysis cannot be applied, literally, to long range investment plans. There, as stated, it is the long run perspective of profit that counts. And it is unreasonable to suppose that when investors see a trend of money wages going higher and higher in *excess* of productivity, they will be induced to risk their funds and employ labor if prices simultaneously are to be forced down.

Let us sum up the problem of aggregate wages, investment, inflation, and employment. Money wage increases do not *need* to cause higher prices if productivity is increasing sufficiently. But wage increases in excess of productivity make it necessary to raise prices if there is to be a sufficient inducement to invest for full employment. If not, employment will drop. "Demand for commodities is not demand for labor," as even Lord Keynes once repeated.[8] If the businessman sees no margin of profit in prospect, and instead sees loss ahead, he will tend to let inventory decline and even go out of business. When we consider long-range investment plans, the situation gets even worse. The retailer may manage somehow for a while, but if the long-range investor feels that the inflationary cost price situation is temporary he may not invest even if there *is* inflation; by a multiplier process unemployment will spread.

II

Let us shift now from aggregate wages to particular work groups. Is it *always* bad for wages in one industry to go up faster than "productivity"? Contrariwise, is it *always* bad for wages in some industries to lag behind wages in others? Are we to set up an iron-clad universal standard of "equal pay for equal work," and is the standard always to be that of the highest paying industry of the moment? I do not see how one can possibly discuss these questions without discussing the operation of the pricing system. For, even if one does *not* believe in the pricing system and wants to set up a substitute, it is still important to know the exact problem for which one is proposing an alternative.

I find it difficult to exaggerate the amount of damage done to our understanding of the pricing mechanism by the use of equilibrium models. For, after all, growth comes through change and causes change and, as we shall see more and more in the course of this paper, the real test of any social system is how it meets this problem of necessary *adjustment* to change — not just how it looks when at rest. Now how does the pricing system adjust the labor market and the wage problem to change? The primary agent is the push and pull of

7 *Id.* at 195-6.
8 J.M. KEYNES, THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY 359, n. 4 (1936).

differential reward. Suppose a new industry appears, giving rise to a great demand for the development of a particular area. Profit prospects will go up for that area and, if labor is scarce, wages will rise there also. The effect, under the pricing system, will be to draw labor into the new field — whereupon, other things being equal, wages and prices are likely to revert to more nearly their "normal" levels. Scarcities then, temporary or permanent, may well raise the money wages of a particular group well above what has been thought of as its "productivity." To be sure, the word "productivity" has so many meanings it can cover this case too, but I have been trying to convey the low-brow approach to the problem.

But now let us ask: Should the wages of all similar workers all over the system be raised to match the special wage created by a local shortage (and often particularly high to cover inconveniences of moving)? The proposition scarcely makes sense. To be sure, if the local scarcity lasts, and is large enough, it *will* pull up the level of wages in that line throughout the system. And in fact this is the ultimate source of real wage increases anyhow. But shall equal pay for equal work be used as a sanction for immediate general dislocation?

Reversing the problem, if an industry is declining and cannot afford to pay the higher wages created by industrial progress should they be forced up anyhow? This will of course accelerate the closing of the industry and create immediate unemployment, and a need to transfer, when the process would otherwise have been more gradual and yielded jobs for the less enterprising for some years. Important conflicts of value standards and group interest are obviously possible here.

The pricing system is far from perfect, as we all well know; but it does have one ethical feature that should be noticed: It considers the interest of the *whole* labor force — not just that of one group. Suppose, again, a new industry to develop in a backward area where wages are low. Under the pricing system wages would probably, for a while, remain low, industrial expansion could continue, other industries could be brought in, and then, as the ratio of capital to labor rose, wages would rise. They would rise in a manner to consider the whole group. Suppose, on the other hand, the new industry is immediately organized on an "equal pay" basis, a wage level is imposed appropriate to areas of labor scarcity elsewhere, and further expansion is cut off. The result would be to create relative affluence for one small group of workers leaving the rest of the region in poverty. The ardent unionist from a high wage area, proselytizing immediate wage increases in an undeveloped region, may be sincere in his own mind. But considered objectively, his role may be one of rather doubtful altruism. I am sorry to have to bring up these points but they happen to be true, and a part of the general picture that public interest cannot ignore.

One final point must be made. We hear a lot today about technological unemployment, automation and so on. Much of the discussion reads as if technological changes were quite spontaneous — as if they came down from the sky independently. But this is quite wrong. One reason for technological unemployment may be that the unions, in pressing for too rapid a rate of money wage increase, may be putting an artificial premium on labor-saving devices;

in other words, they prevent the absorption of the growing population by insisting upon too high a rate of pay for a few. Professor Hicks' "elasticity of substitution" and distinction between "automatic" and "induced" inventions is in point here.[9] Higher pay for a group of skilled workers may be obtained and caused by technical change, but at the same time the process often creates an unemployment reserve and shifts its burden to the state.

It is time to summarize the problem of wage groups in particular areas. The pricing system, or "market," works through the pushes and pulls of differential rewards. If we prematurely eliminate these differentials we may stop adjustment. And though this may benefit some groups, already established, it by no means necessarily benefits labor as a whole or the country as a whole. This conflict of the whole and the part runs through the entire labor problem and we must return to it again shortly.

But the other point must be remembered. Even when technical change is allowed to justify higher wages in an industry by greater "productivity," this does not *necessarily* mean that from the point of view of the public interest the process has been desirable. For an artificial premium has been put upon labor-saving devices and needless technological unemployment may have been created. Technological unemployment does not just descend from the sky like a bolt of lightning.

III

In the last section we have seen that even productivity gains may sometimes be the result of processes which, from a social point of view, are not entirely desirable. Nevertheless it remains true that if a society, any society, is to grow, it must be willing to change. Furthermore, gains which management succeeds in absorbing by productivity increases need not cause inflation and are on the whole by far the most socially tolerable result of union wage pressure. As I used to put it in lecturing in Europe, "Be like the American unions. They ask for more, it is true, but they permit the modernization which justifies the increase. The one thing you can't do, to make sense, is ask for an American rate of wage increases while refusing the shift in technique that makes the raises possible." Here we find ourselves face to face with fundamental problems of social order in a growing society.

But why growth? No discussion which aims at real objectivity and comprehensiveness can by-pass this question. There are several points involved here. First is a simple old-fashioned beefsteak approach. "More" is good because it is more. The most convincing argument here is the matter of health. Few honest men would really *prefer* to be sick rather than have the disturbances of industrialism. You cannot really want to end the industrial revolution and go "back to the land" unless you are willing to let your appendix burst rather than resort to modern operating techniques. For modern operating and medical techniques generally depend upon the machine and would be impossible without it.

But going beyond the beefsteak approach, I would like to suggest a further dimension to the problem. The gain from the process of technical change, de-

9 *Cf.* J. R. Hicks, The Theory of Wages.

velopment and discovery is not just the "more" which the process gives but the *process itself!* In other words, one of the aims of creativity is not just what is created but the *act* of creation. "The nature of man" is many things. But one of them, for many people, is the creative urge. Indeed one principle which I developed at the beginning of my professional career and whose significance seems to me to grow almost uninterruptedly is that the real class struggle is not between the bourgeois and the proletariat but between those who are by temperament "stirrer-uppers" and those by temperament "peace and quieters." Like Mr. Ogden Nash's ideal character who is a "gossiper by day and a gossipee by night," what most of us really want is to be stirrer-uppers ourselves — and peace and quieters as far as everybody else is concerned. In other words, we want the changes that suit or benefit *us,* but not the changes that benefit others but disturb us. However, if we are honest, we must know that this is a nonsense and an immoral attitude. If I want a chance to express my creativity, I must be prepared to give one to the other fellow also. And one form of creativity is science and invention which has aptly been called the aesthetics of the West.

One point, however, must be stressed. To believe in creativity is not to believe in everything that may be created, or all forms of creation. Growth comes through change, but not all change is growth. Nor is "more" always gain. "More" may be "illth" in Ruskin's expressive phrase for economic goods that are socially bad. It is not in my opinion, for example, a social gain to devastate fine old cities or public parks to make parking lots as is increasingly and lamentably being done in Europe, and not only there. We can walk, most of us.

This is a side issue, however, and merely illustrative. Assuming that standards of value and good taste are applied in some reasonable degree, growth and creativity seem to me to be good things. I wholly repudiate the bogus mental health approach which confuses external immobility with internal peace. Such an approach is a good example of that confusion of peace with its "bastard substitute anaesthesia" spoken of by Whitehead. A man may be driven just as "crazy" by frustrating his creative impulses as by overstimulating them. The urge to achieve is not necessarily "aggression" — else all excellence would be bad.

Our standard of social order, then, if we wish to have both growth and creativity, must be not a fixed, unchanging form but an orderly form of *change.* And it is just at this point that what may have seemed a somewhat abstract deviation from the main line of our paper joins up with the evaluation of the union movement. For unfortunately the union movement, especially as it becomes more mature, contains within itself a strong bias against adjustment, against modernization, and against rising living standards. Let us see why this is so. To do the job properly we must return to the "non-economic" aims of union action.

V

In our preface we said that some of the ideals of union organization were to avoid unfair discrimination, to give "security," to give "companionship" or participation. Especially strong has been the ideal of the self-governing work-shop, the elimination, as Lord Lindsay of Birker put it, of the "we-they" problem. The more "intellectual" types of unionism tend to shift over from mere "business" or beefsteak unionism toward the ideal of the secure self-governing, self-directing work unit in which labor and management are one. There, it is hoped, there will be no feeling that "we" are being ordered around by "them." The worker does not feel himself at the mercy of impersonal forces.

Unfortunately this idea is just not workable in growing modern society. The basic weakness of the union movement considered as an independent or alternative form of social organization is that the parts of an organism, thinking just as parts, cannot direct the whole. Healthy growth requires some means of coordination. Either the total of economic activity is to be tied together by the pushes and pulls of the pricing system — in which case the parts are rendered "insecure" and forced to adapt to *imposed external* forces; or it must be tied together by the orders of a planning board — *equally* imposed and external. For each individual organism to be secure, self-governing and undisturbed, large units must, first, be split up into small units, and, second, all change and growth must be stopped.[10] As soon as the directorate cease to think only for their little group and begin to think for the nation, as they must do if they are to plan, a cleavage of outlook develops between them and the local group. The parish pump cannot rule the nation and still be the parish pump. "We" and "they" again appear.

But there are other aspects of the urge for security and the prevention of "discrimination." Most serious of these is perhaps the promotion problem. The union confronted with the job of explaining why Bill, rather than Joe, should be promoted is apt, with its strong equalitarian bias, to take refuge in seniority or in tightly defined job categories. This creates a heaven for mediocrity plus another barrier to modernization. Finally, up until now, the one answer which a man could make who found himself in such a tightly organized, ossified work group was to transfer somewhere else. But, by means of the closed shop, pensions and other benefits, large parts of which are lost on transfer, the labor market is more and more being cut up into more or less water-tight sub-markets between which it is more and more difficult to transfer. In return for an often vague and tenuous right to "influence" the leadership of the union which "represents" him, the worker is severely crippled in the exercise of the much more practical and immediate right of switching jobs.

The effect of all these tendencies, which I have only sketched in, is to create in the union movement a great and growing bias against modernization. There is no necessary deliberate intention involved here. The trouble is that some of the basic aims and standards of the union movement are fundamentally opposed to rising living standards for the poor, since those rising living standards involve change. And when a society allows its juridical institutions to become geared to a given state of technique — which practically always happens with a mature union — modernization becomes almost impossible, even by union leaders.

Often, when I was living in England, labor leaders would come back

10 See Wright, *Adventure or Routine*, HARV. BUS. REV. (Sept.-Oct. 1959).

from the United States or Germany preaching the gospel of modernization. "We must improve technology or fail," they would say. Then they would go back to the industrial districts and try to put across some changes. Almost invariably the outcry from the various vested *working* interests — the men whose jobs and solidarity were affected — would become so great that the union leaders, finding basic "solidarity" affected, would relapse into what one American has called "innocuous desuetude."

VI

We are now in a position to see what can happen with a labor movement that has become too strong. It can cause unemployment or inflation, or unemployment *and* inflation. It can greatly increase the rate of technological unemployment, and it can, on the other hand, prevent the modernization upon which the process of growth and real wage increase essentially depends. What can be done about it?

In my next paper I will discuss certain measures for the control of strikes.[11] But I believe that beyond and behind any specific measures there lies one basic task — that of taking the halo off the unions. Unions today derive most of their strength from the public image of them as battlers for the underprivileged and agents for the public welfare. This image is a tremendous distortion. What we do not realize is that one work group can exploit another work group just as much as one employer could do so. It comes hard to a union leader who sees his union making gains — who sees the playgrounds and the pensions and the other concessions he has won — to be told that he is just a lobbyist — not much more altruistic than any other. Hasn't he helped the workers? But, we must ask, *which* workers? The good things which his group may have obtained may well be derived not nearly so much from the employing corporation as from the inflationary exploitation (however unconscious) of the remainder of the economy. If you answer, "this problem will be met by organizing everyone," the reply must be made that were everyone maturely organized the chances are that there would be no further social growth at all.

America today faces one of its great historic periods, one of its most searching challenges. For the first time in decades we find ourselves meeting the competition of countries which have both lower wages *and* higher technical skill than we do. There are those who for one reason and another would urge us to lock ourselves up in our own fat, to try to bribe others to keep out of our markets, to bury our heads in the sand. "Release from the thralldom of productive efficiency," says Professor Galbraith; "down with foreign competition," say others; "security forever," says a third group. These are the voices of decadence and decline. The only constructive response to our position today is (1) increased efficiency, (2) common sense and moderation in demands for more, (3) accepting our role as a great international power — and I don't just mean aid, but trade. Yet in this policy where will the unions stand? Greedy, provincial, reactionary, lethargic — or willing to move on into the new world of science, with its danger, but also its glowing promise?

11 Wright, *The Canadian Compulsory Conciliation Laws and the General Problem of Union Power,* 35 NOTRE DAME LAW. 648 (1960).