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## SOME REFLECTIONS ON SYNDICALISM<sup>1</sup>

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Students of social science must fear popular approval; evil is with them when all men speak well of them. If there is any set of opinions by the advocacy of which a newspaper can increase its sales, then the student . . . is bound to dwell on the limitations and defects and errors, if any, in that set of opinions; and never to advocate them unconditionally even in an *ad hoc* discussion. It is almost impossible for a student to be a true patriot and to have the reputation of being one at the same time.—ALFRED MARSHALL.<sup>2</sup>

QUESTIONING the virtues of the organized labor movement is like attacking religion, monogamy, motherhood, or the home. Among the modern intelligentsia any doubts about collective bargaining admit of explanation only in terms of insanity, knavery, or subservience to "the interests." Discussion of skeptical views runs almost entirely in terms of how one came by such persuasions, as though they were symptoms of disease. One simply cannot argue that organization is injurious to labor; one is either for labor or

against it, and the test is one's attitude toward unionism. But let me indicate from the outset that my central interest, and the criterion in terms of which I wish to argue, is a maximizing of aggregate labor income and a minimizing of inequality. If unionism were good for labor as a whole, that would be the end of the issue for me, since the community whose welfare concerns us is composed overwhelmingly of laborers.

Our problem here, at bottom, is one of broad political philosophy. Advocates of trade-unionism are, I think, obligated morally and intellectually to present a clear picture of the total political-economic system toward which they would have us move. For my part, I simply cannot conceive of any tolerable or enduring order in which there exists widespread organization of workers along occupational, industrial, functional lines. Sentimentalists view such developments merely as a contest between workers who earn too

<sup>1</sup> The manuscript of this article was prepared in 1941. It was designed, not for publication, but as an exercise in formulating privately some persuasions or prejudices which kept creeping into discussions of other subjects or problems. Later, several friends looked at the manuscript. Some of them, though not all, questioned the presumption against publication. So the matter was referred to the editors. After they decided to publish, one insert and a few footnotes were added to the original draft.

<sup>2</sup> Quoted in A. C. Pigou, *Economics in Practice* (London, 1935), pp. 10-11.

little and enterprises which earn too much; and, unfortunately, there has been enough monopsony in labor markets to make this view superficially plausible, though not enough to make it descriptively important. What we generally fail to see is the identity of interest between the whole community and enterprises seeking to keep down costs. Where enterprise is competitive — and substantial, enduring restraint of competition in product markets is rare — enterprisers represent the community interest effectively; indeed, they are merely intermediaries between consumers of goods and sellers of services. Thus we commonly overlook the conflict of interest between every large organized group of laborers and the community as a whole. What I want to ask is how this conflict can be reconciled, how the power of strongly organized sellers can be limited out of regard for the general welfare. No insuperable problem arises so long as organization is partial and precarious, so long as most unions face substantial non-union competition, or so long as they must exercise monopoly powers sparingly because of organizational insecurity. Weak unions have no large monopoly powers. But how does a democratic community limit the demands and exactions of strong, secure organizations? Looking at the typographers, the railway brotherhoods, and metropolitan building trades, among others, one answers simply: "It doesn't!"

In an economy of intricate division of labor, every large organized group is in a position at any time to disrupt or to stop the whole flow of social income; and the system must soon break down if groups persist in exercising that power or if they must continuously be bribed to forgo its disastrous exercise. There is no means, save internal competition, to protect the whole community against organized labor minorities and, indeed, no other means to protect the common interests of organ-

ized groups themselves. The dilemma here is not peculiar to our present economic order; it must appear in any kind of system. This minority-monopoly problem would be quite as serious for a democratic socialism as it is for the mixed individualist-collectivist system of the present. It is the rock on which our present system is most likely to crack up; and it is the rock on which democratic socialism would be destroyed if it could ever come into being at all.

All the grosser mistakes in economic policy, if not most manifestations of democratic corruption, arise from focusing upon the interests of people as producers rather than upon their interests as consumers, i.e., from acting on behalf of producer minorities rather than on behalf of the whole community as sellers of services and buyers of products. One gets the right answers usually by regarding simply the interests of consumers, since we are all consumers; and the answers reached by this approach are presumably the correct ones for laborers as a whole. But one doesn't get elected by approaching issues in this way! People seldom vote in terms of their common interests, whether as sellers or as buyers. There is no means for protecting the common interest save in terms of rules of policy; and it is only in terms of general rules or principles that democracy, which is government by free, intelligent discussion, can function tolerably or endure. Its nemesis is racketeering — tariffs, other subsidies, and patronage dispensations generally and, outside of government, monopoly, which in its basic aspect is impairment of the state's monopoly of coercive power.

Trade-unionism may be attacked as a threat to order under any kind of system. The case against it is crystal clear if one thinks in terms of purer types of systems like democratic collectivism. A socialist government, faced with numerous func-

tional minorities each organized to disrupt the whole production process unless its demands are met, would be exactly in the position of recent Chinese governments faced with great bandit armies continuously collecting ransom from the nominal sovereign. It would either deprive such minorities of the power to act as units in withholding services or be displaced by a nondemocratic authority which could and would restore monopoly of violence. There is no place for collective bargaining, or for the right to strike, or for effective occupational organization in the socialist state, save in the sense that revolution against established authority is an undeniable privilege and violent chaos always an imminent possibility; and every intelligent socialist, whatever his public utterances, knows as much.

I am arguing, however, not as a socialist, but as an advocate of the elaborate mixed system of traditional economic liberalism. The essence of this practical political philosophy is a distrust of all concentrations of power. No individual may be trusted with much power, no organization, and no institution save the state itself. The state or sovereign must, of course, possess great reserves of power, if only to prevent other organizations from threatening or usurping its monopoly of violence. But the exercise of power inherent in government must be rigidly economized. Decentralization of government is essential. Indeed, the proper purpose of all large-scale organization or federation—as should be obvious to people facing the problem of world order—is that of dispersing power.

Let me remark in passing that highly centralized nationalisms are peculiarly inimical to sound political order. Federalism or informal union of states has everything to commend it if the central government confines itself largely to preserv-

ing order and free trade among constituent states, and to providing a stable, common currency. But federal governments like our own and the great powers abroad have become a great obstacle to world order. Originating largely as customs unions or agencies for securing free trade within their boundaries, they were rapidly exploited by minorities to provide subsidies via restraints upon external trade; they have undertaken all kinds of internal policies which must be abandoned if freer world trade is to be achieved; and, finally, they have been largely utilized to restrict trade among their own constituent states or sections. These monsters of nationalism and mercantilism must be dismantled, both to preserve world order and to protect internal peace. Their powers to wage war and to restrict world trade must be sacrificed to some supra-national state or league of nations. Their other powers and functions must be diminished in favor of states, provinces, and, in Europe, small nations.

Along these lines we may reconstruct a total political system in which organization becomes progressively looser and functions increasingly narrow and negative as one moves from local government (counties?) to state, to nations, and to supra-national agencies. The good political order is one in which small nations and governments on the scale of American states are protected in their autonomy against neighbors and protected against federalisms or unions which appropriate their powers, take positive government farther from the people, and systematically subordinate common to special interests.

The great sins against world order, by way of trade restraint and military activity, are those of great, not small, nations. In spite of popular impressions to the contrary, the worst breaches of political morality, the worst patronage corrup-

tion, and the most glaring weakness against organized minorities are characteristic of great national or federal governments far more than of smaller units—and of our federal government, with all its “respectability” and “efficiency,” especially.<sup>3</sup>

Governments can be trusted to exercise large power, broad functions, and extensive control only at levels of small units like American states and under the limitations imposed by freedom of external trade. Especially in the higher levels or larger units of government, action must follow broad general rules or principles. Only by adherence to “constitutional” principles of policy can the common interest be protected against minorities, patronage, and logrolling; and only in terms of issues of broad principle can government by free, intelligent discussion (democracy) prevail. Most important here are the presumptions in favor of free trade and against dispensations to producer minorities. Constitutional principles or accepted norms are also peculiarly important, and lacking, in fiscal (monetary, budgetary) policy.

Other implications of this older liberalism may be mentioned briefly. The government must not tolerate erection of great private corporate empires or cartel organizations which suppress competition and rival in power great governmental units themselves. (In Germany the great cartels, and the great banks especially, attained to power which no private bodies can enjoy under a sound democracy.) It must guard its powers jealously both

against the combination of numerous pressure groups and against powerful lobbies like the present federal lobby of landowners. (The case of German democracy and the Junker interests is again excellently in point.) It must hold in check organizations designed for raiding the Treasury (witness the history of pension legislation and the political power of veterans' organizations). Finally, and most important for the future, it must guard its powers against great trade-unions, both as pressure groups in government and as monopolists outside.

The danger here is now most ominous, in the very nature of such agencies and also because the danger is least well recognized and commonly denied entirely. In other areas we are, if diffident and careless, at least on our guard; nothing is likely to happen that cannot be undone if we will; but labor monopolies and labor “states” may readily become a problem which democracy simply cannot solve at all. There must be effective limitations upon their power; but I do not see how they can be disciplined democratically save by internal competition or how that discipline can be effected without breaking down organization itself. Here, possibly, is an awful dilemma: democracy cannot live with tight occupational monopolies; and it cannot destroy them, once they attain great power, without destroying itself in the process. If democratic governments cannot suppress organized extortion and preserve their monopoly of violence, they will be superseded by other kinds of government. Organized economic warfare is like organized banditry and, if allowed to spread, must lead to total revolution, which will, on very hard terms, restore some order and enable us to maintain some real income instead of fighting interminably over its division among minorities.

A community which fails to preserve

<sup>3</sup> An essential difference between federal and local corruption (aside from orders of magnitude, in which state and local bodies are simply out of the running) is that the latter generally stinks, while the former is generally practiced by seemingly honest people and effected in impeccably legal ways. The kind that stinks has, on balance, much to commend it relatively to democrats.

the discipline of competition exposes itself to the discipline of absolute authority. Preserving the former discipline, we may govern ourselves and look forward to a peaceful world order; without it, we must submit to arbitrary authority and to hopeless disorder internationally. And, let me suggest again, the problem is quite as critical for democratic socialism as for the decentralized system of orthodox liberalism. An obvious danger in collectivism is that the vast powers of government would be abused in favoritism to particular producer groups, organized to demand favors as the price of maintaining peace, and available to support established authorities against political opposition. Adherence to competitive, productivity norms is, now or under socialism, a means for avoiding arbitrariness and, to my mind, the only feasible means.

Observance of such norms *does not* preclude wholesale redistribution of income afterward, if such redistribution proceeds even-handedly on the basis of definite, broad rules. There is room for much socialized consumption, made available without price restraints or at prices well below cost. The policy requires, for good results, both deliberate supplementing of earnings at the bottom of the scale (relief, family allowances, old age assistance, etc.) and, especially under free enterprise, progressive taxation of the most fortunate and their heirs and assigns. But the supplementing of public spending and the scaling-down by taxation must proceed even-handedly among functional groups, in terms of objective economic (income) circumstances and without arbitrary occupational differentiation. Thus poor farmers may properly be subsidized, like others of similar income and needs, because they are poor but *not* because they are farmers; and wealthy manufacturers may be taxed heavily, not because they are manufacturers of this or that,

but because their incomes are large. Incidentally, it is one merit of our present (past) system that inequality is measured closely by income and can most easily be modified systematically through taxation and spending. Inequalities of political power, which alternative systems are likely to produce in extreme form, are likely to be more obscure and certainly are not amenable to quantitative measurement or to continuous, systematic correction or mitigation.

The importance of competitive norms and the anomalies of control through voluntary association should be especially evident from recent experience. After 1933 there existed a most unfortunate dispersion between rigid, administered prices and wage rates and the sensitive, competitive prices and wages which deflation had lowered drastically. If, while sensitive prices were held up and raised by deficit reflation, administered prices and wages could have been lowered to levels more consistent with them, almost everyone would have gained. But no single group, able to hold up its own price or wage, could advantage itself by reductions unless other such groups acted similarly and simultaneously. Even if general reductions were in prospect, each single group could advantage itself by holding back. Competition would have forced all such groups to do what it was to their common interest, and to the community's interest especially, to have done. Failing competitive control, they naturally all sat tight, cutting their own throats and all losing absolutely in order to preserve their relative position.

Every organized group of sellers is typically in a position to gain by raising price and restricting sales; the popular notion that they commonly are more exploitative than their own interests would dictate

(that we need only more enlightened price and wage policies by organized groups) is simply mistaken,<sup>4</sup> for inadequacy of monopoly power usually leaves them far short of ideal monopoly restriction. When organization becomes widespread, however, the common interest in increased production may greatly outweigh particular interests in restriction, even for those practicing restriction; but, I repeat, the common interest may be implemented only by competition or by authoritarian dictation. There is little hope that mass organizations with monopoly power will submit to competitive prices for their services while they retain their organization and power. No one and no group can be trusted with much power; and it is merely silly to complain because groups exercise power selfishly. The mistake lies simply in permitting them to have it.

Monopoly power must be abused. It has no use save abuse. Some people evidently have believed that labor organizations should have monopoly powers and be trusted not to use them. Collective bargaining, for the Webbs, was evidently a scheme whereby labor monopolies were to raise wages to competitive levels, merely counteracting monopsony among buyers, but eschewing further exercise

<sup>4</sup>Several economist-publicists have recently proposed an antimonopoly program based merely on adult education and exhortation. Tycoons, it seems, need only to be made to see the monopoly advantages of lower prices and larger volume (i.e., the "error" of orthodox marginal analysis). Labor leaders need only be taught to regard themselves as merchandisers or marketeers of labor. On my view, everything depends on whether the pupils are monopolists or not. If not, they may usefully be instructed in the arts of marketing things competitively. Among monopolists, however, economic illiteracy should be carefully fostered and conserved. Any larger understanding of how best to exercise or to augment their powers would be a national and international calamity. And I wholly distrust a scheme for misleading them (and everyone else) by wholesale dissemination of ingenuous economic fallacies and upside-down price theories.

of organizational powers. A trade-unionism, affecting wages and working rules only within such limits, and doing all the many other good things that unions can do, would be a blessing all around.<sup>5</sup> No one could seriously question its merits in the abstract. But monopsony in the labor market is, I think, very unsubstantial or transitory; and it is romantic and unreasonable to expect organizations to exercise powers only within limits consistent with the common interest. All bargaining power is monopoly power. Such power,

<sup>5</sup>It has seemed best in this essay simply to recognize that unions perform many useful functions and render many valuable services besides those having to do with wage rates, labor costs, restrictive practices, and monopoly or bargaining power—without attempting to detail or to appraise the salutary activities or aspects of activities. This deliberate omission implies no inclination to question or to minimize the good things of unionism, but merely a disposition to emphasize considerations and aspects which are the proper and special business of economists as such. To stress those things which are especially amenable to quantitative or abstract analysis is not to imply that others are unimportant.

Two other apologies may also be offered. First, any passing appraisal of the things here neglected would be inadequate and would imply claims to a hearing in areas of inquiry where the claims could not be sustained. Second, I wish to avoid the cheap rhetoric of weasellers who "believe in collective bargaining *but . . .*" This category runs all the way from "but really don't, save as among employers" to "but not in the closed shop." The latter "but" calls for comment. To my mind, it almost says that strong unions should not be shorn of any power but that weak ones should be slowed down in acquiring power. The closed shop, like overt violence, is an invaluable device for acquiring power and yet, as an explicit privilege or contract provision, is of almost no importance for the exercise of power once acquired and strongly held. The notion that labor monopolies can be frustrated or mitigated merely by forbidding the closed shop is, I submit, almost wholly ingenuous and mistaken.

I wish I could honestly and tactfully propose that large unions be protected and fostered in their good functions and deprived of their socially bad ones (monopoly power). Like others, I can *wish* for this solution, but, also like others, I cannot honestly propose it, for I have

once attained, will be used as fully as its conservation permits and also used continuously for its own accretion and consolidation. The skin disease of monopsony is certainly a poor excuse for stopping the peaceful and productive game of free enterprise and free exchange in favor of the violent contest of organized producer-minorities.

I do not assert that our only monopoly problems lie in the labor market. Save for the monopolies which government is promoting in agriculture, however, no others seem comparably important for the future. It is shameful to have permitted the growth of vast corporate empires, the collusive restraint of trade by trade-associations, and the gross abuse of patent privilege for extortion, exclusion, and output restriction. But enterprise monopoly is also a skin disease, easy to correct when and if we will, and usually moderate in its abuses, since its powers are necessarily small, and since the danger of political reckoning is never very remote. Enterprise monopoly, enjoying very limited access to violence and facing heavy penalties for unfair methods against rivals, is always plagued by competition, actual and potential, and must always operate against

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no notion *how* it could be done. Politicians may go on advocating schemes defined merely in terms of everyone's ends, without any reference to means or implementation—and fearlessly opposing sin in general. Professors, after a prodigious spree, should now eschew such rhetorical intoxicants and go back to work. However, it is perhaps not merely wishful to suggest that many of the good features of unionism *could* be preserved, and monopoly powers perhaps kept within reason, by limiting the size of unions and proscribing collusion among them. Having said this, one must pause for riotous heckling about "company unions" and then try calmly to assert that the case against company unions is strongest when asserted only against bad ones and, like the case against means tests, is not impressive when stated categorically or when supported only by bad (i.e., historical) evidence.

a deeply hostile, if lethargic, attitude of courts, legislatures, and the public. In exceptional cases it has acquired vast power and sustained power over long periods. In many cases it has transformed salutary price-competition into perverse and wasteful "competition" in merchandising and advertising. But, to repeat, the proper remedies here are not very difficult technically or politically.<sup>6</sup>

Labor monopolies are, now or potentially, a different kind of animal. If much violence has been used against them as they struggled into existence, this should not obscure the fact that, once established, they enjoy an access to violence which is unparalleled in other monopolies. If governments have tolerated flagrant violations of law by employers, they are nearly impotent to enforce laws against mass minorities even if majority opinion permitted it. Thus, unions may deal with scabs in ways which make even Rockefeller's early methods seem polite and legitimate. They have little to fear from chisellers in their own midst; and they have now little to fear from Congress or the courts.

Patently restrictive practices are now commonly deplored and, perhaps because unnecessary, seem somewhat on the wane. But there have been many cases of severe limitations upon entry—high initiation fees, excessive periods of apprenticeship and restrictions upon numbers of apprentices, barriers to movement between related trades, and, of course, make-work restrictions, cost-increasing working

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<sup>6</sup> It is difficult to focus attention upon the potentially greater problem of labor monopoly without seeming to underestimate the corresponding and complementary problem of enterprise monopoly. My best defense against this charge may be found elsewhere, e.g., in "Post-war Economic Policy: Some Traditional-Liberal Proposals," *American Economic Review*, Suppl., March, 1943, pp. 431-45.

rules, and prohibition of cost-reducing innovations, notably in the building trades—not to mention racial and sex discriminations against which effective competition in labor markets is probably a necessary, if not a sufficient, protection.

It is not commonly recognized, however, that control of wage rates is control of entry, especially where seniority rules are in force, and, even failing such rules, where qualitative selection is important and turnover itself very costly to firms. If able to enforce standard rates, experienced, established workers can insulate themselves from the competition of new workers merely by making their cost excessive, i.e., by establishing labor costs and wage-expectations which preclude expansion of production or employment in their field. New and displaced workers typically migrate, not to high-wage occupations but to places where employment opportunities exist; high wages are less attractive if jobs cannot be had. Wage control, determining a major element in operating cost, also determines the rate at which a whole industry will expand or, more likely, with strong organization, the rate of contraction.

Frankly, I can see no reason why strongly organized workers, in an industry where huge investment is already sunk in highly durable assets, should ever permit a return on investment sufficient to attract new capital or even to induce full maintenance of existing capital. If I were running a union and were managing it faithfully in the interest of the majority of its numbers, I should consistently demand wages rates which offered to existing firms no real net earnings but only the chance of getting back part of their sunk investment at the cost of the replacement outlays necessary to provide employment for most of my constituents during their own lifetimes as workers. In

other words, I should plan gradually to exterminate the industry by excessive labor costs, taking care only to prevent employment from contracting more rapidly than my original constituents disappeared by death and voluntary retirement.

If I were operating, as labor leader, without the valuable hostages of large sunk investment, I should be obliged to behave more moderately. But I should still seek, controlling prices via labor costs, to restrict production as rapidly as consistent with decline of my membership by death and retirement and, while permitting some return to investors, should try always to induce only as much employment and production as my original constituents could take care of without new members. If investors disliked my high wages, they would like the high prices which I could assure them by excluding lower-wage competitors. In both cases I should, of course, not serve my constituents well toward the end unless I utilized the opportunity of permitting some newcomers, by payment of heavy tribute, to enter, to acquire skill and experience, and to become established with my older cronies; for the initiation fees would contribute handsomely to our retirement annuities.

The situation is more complicated, of course, where unions do permit and facilitate entry, i.e., where work is shared equally between newcomers and others. Here the advantages of high wages are dissipated by the sharing of unemployment; and annual wages may even drop below a competitive level, if workers value leisure highly or are usually able to find other remunerative work during their periods of layoff. The outcome resembles that of the pure cartel among enterprises, where price is fixed by voluntary agreement, output divided by quotas, and newcomers admitted freely and granted quotas on the same basis as old

firms. No one gains, and everybody as consumer loses. There is great social wastage of resources, of labor in one case, of investment in the other; and the two wastes are likely to occur together, as in coal-mining.

But free entry and division of work are not likely to characterize unionism of the future and have rarely prevailed in the past. Employees increasingly seek seniority rights; employers prefer to exercise qualitative selection; and the demands from both sides are roughly consistent, especially in large established firms where workers are carefully selected in the first place and experience is important. Some conflict arises, fortunately, between the rank and file, who want the highest possible wage rates, and labor leaders, whose power and influence, in government and in labor circles, depends on the number of their constituents; but this conflict will usually be reconciled in favor of the interests of the rank and file or avoided via organization imperialism (jurisdictional conquests). Sentimentalists will urge that strong unions should moderate wage demands, recognizing an obligation to permit entry of young workers and workers displaced in decadent industries; but I should not expect them to behave so or blame them for using power, if they have it, in their own interest; and I see no way to avoid severely restrictive policies save by depriving them of control over wages, i.e., of bargaining power.

Personnel experts tell us that qualitative dispersion in labor markets is enormous; that among workers regarded as belonging to the same class, i.e., apart from the up-grading that accompanies large increases of employment, the best workers are worth several times as much to a firm as are the poorer ones. In any case, it is instructive to consider an analogy in agricultural policy to the device of the standard rate in unionized industry.

It is a familiar axiom that the existence of poorer grades of land serves to keep down rents on the better grades. The poorer grades, adding to output, keep down product prices and thus diminish productivity and rents of other land. Suppose now that wheat producers, protected by prohibitive tariffs, should organize and prohibit, by night riding or by securing appropriate legislation, the use for wheat-raising of any land whose net annual rental value is less than \$10 per acre. (Thus renters could not use land for wheat unless they paid at least \$10 per acre; and owners could so use their own land only if annual net returns averaged above \$10 per acre.) The effects of such a measure would be fairly complex, since some land excluded at the start would become eligible for use after output fell and price rose; but its virtues for owners of the best land, and its grave diseconomies for the community, are obvious enough. No one (outside the Department of Agriculture) would purport to defend such a policy or suggest that it would be less objectionable if extended to cover all forms of agriculture. In principle, however, there is little to distinguish it from the standard wage in industry.

The argument need not be extended to support extensive differentiation among employees within establishments. It is the proper business of personnel officers to classify employees by tasks and to standardize rates within categories, with perhaps some regard for length of service. Differentiation among individuals is to be avoided, in the interest of both workers and management.<sup>7</sup> A less strong case can

<sup>7</sup> One finds here a source of both economies and diseconomies in large as against small firms. The former can afford more elaborate methods of selecting and grading, while the latter can tolerate wider quality dispersion and more differentiation in remuneration. Smallness has much to commend it socially, since it promises better utilization of exceptionally good workers and employment rather than unemployment for substandard workers.

be made for considerable standardization of rates within cities or localities. The issue becomes critical when standardization is enforced over wide areas, between small and large cities, and among regions in a vast economy.

The case for differentiation according to differences in living costs is commonly conceded in principle and need not detain us here. Trade-unionists will deplore any such concession as a confession of weakness or as impractical and, since it is clearly contrary to the interests of established workers and established centers in most cases, may be expected to prevent it if they have the power to do so. Moreover, the principle is much less simple and definite than it seems to most people, for even rough estimate of the relative value of money as between distant places is nearly impossible.

Even with such differentiation, however, the argument for standardization of wage rates between communities comes near to denying all advantages of inter-regional trade and is fundamentally on a level with the preposterous Republican (and Democratic!) principles of tariff policy. If standard wage rates are desirable, then tariffs should everywhere be adjusted to offset all differences in labor cost between domestic and foreign producers. This differs slightly from the Republican principle of equalizing all costs, but not enough to merit separate attention. If fully applied in tariff policy, it would practically prohibit all trade and all territorial specialization. One difference here may, however, be noted. If a domestic industry and its workers are protected by duties which compensate for wage differences, say, in Argentina, Argentinean workers are excluded from an American product market. If American workers can enforce their wage rates on Argentinean and other producers, they get both the American and the Argentine-

an markets—if they are superior workers and/or if they have access here to better and more abundant capital and management. If northern enterprises and workers can enforce northern wages in particular southern industries, they can largely exclude southern enterprises and workers from both northern and southern markets.

Southern workers may be intrigued by the wage-expectations held out by organizers from northern unions and by the Fair Labor Standards Act. They may in a few cases get such wages; but if they get much employment at such wages it will be only in spite of the intentions of the northern unions and the Massachusetts senators. Again, it is simply contrary to the interests of northern workers to permit competitive expansion of southern industry in their respective fields; and prevent it they will if the power is theirs.

The great American problem of poverty and underprivilege concerns southern labor. Climate, culture, poverty, and scarcity of complementary resources (especially capital) account for chronically low productivity. A bad situation has been profoundly worsened by world changes which have narrowed the market for our great export staple. This, in turn, gave rise to governmental intervention on behalf of landowners — to a modern counterpart of the enclosure movement, which further diminished agricultural output and accelerated displacement of labor where alternative employment opportunities were inadequate even for slower adjustment.

Two growing southern industries — textiles and coal—offered escape from the hills in many areas; but both developments were alarming to northern workers and employers, who, using the slogans of sentimentalist reformers, obtained legislation which protected them against the South as tariff subsidies had earlier protected them against foreigners. The Fair

Labor Standards Act was designed, and will serve primarily, to retard migration of textile production and textile capital into southern states. The Guffey-Vinson Act was intended to sustain a cartelized and unionized northern industry, which the competition of southern coal would have disrupted considerably, if only to the extent of restoring an approximation of competitive norms in its prices and wages.

It is significant that the first measure obtained nearly all the votes which would have supported higher duties on textiles and that early drafts of the Guffey bills were prepared by northern operators and indorsed without modification by labor leaders. Both measures will become obsolete and unnecessary, however, if and as northern unions are able to eliminate or to minimize wage differentials in the areas which concern them. The results will seem good to southern workers who remain employed in the particular occupations; they will be excellent from the standpoint of particular groups of northern manufacturers and laborers; but they will be very bad for southern labor generally and for our economy as a whole.

Mitigation and gradual solution of our major poverty problem depend mainly on industrialization of the South. Migration northward will help; but migration at best is a slow and painful solution and, because of high wages and high quality standards in northern industry, is especially unpromising in this case. The better solution is that of moving capital and industry to the South. But this movement cannot proceed satisfactorily without the attraction of low labor cost. Southern labor, on the whole, simply isn't worth much, to enterprisers or to the community. Rapid industrialization means converting to industrial employment a population which is simply not habituated to such employment and not readily amenable to the discipline of factory work.

New enterprise must largely train its workers as it goes along, being satisfied with poor performance until it has educated and habituated the population to a new mode of life. Public education can help. In the main, however, we must face the necessity of giving to people, schooled only in primitive, subsistence agriculture, long experience with highly specialized, mechanical production which is alien to their culture. If complementary resources can be provided (plant and equipment) in reasonable proportion to labor, and if labor can acquire the appropriate skills and the cultural adaptation for factory production, labor standards may ultimately approach and rival those of the North. During the transition, however, while labor quality remains low and while capital resources remain scarce relative to labor, high wages in those few industries with large growth potentials are a tragic mistake.

There are few industries available to afford this preliminary training and industrial education in the South. They offer the only promising escape from the back-country. Their development must impinge adversely on particular northern industries, while advantaging everyone as consumer; but the necessary displacement of workers *between* industries in the North is a small price to pay for displacement *into* industry in the South. Northern workers, having acquired basic adaptation to industrial employment, need pay no heavy price in relinquishing particular employments in favor of southern labor. A wide range of alternative industries and occupations are available to the higher-quality labor of the North. Those who possess greatest occupational mobility, flexibility, and adaptability must to some extent sacrifice the particular employments which are most readily available to those for whom southern agriculture has ceased to afford mean sub-

sistence. We may have high wages in industries which compete with strong northern groups; or we may have a steadily rising level of income and living standards in the whole South. The choice is about that simple.

I am here arguing merely the classical case for free trade, free markets, and free occupational migration. The argument is equally sound whether invoked against external or internal barriers, against governmental restrictions on trade, or against those imposed by private monopolies. If its application is more obvious when one considers problems of our South, the same argument may be invoked as regards our whole economy or as regards the special interests of the North itself. The public interest demands free exchange and free movement of workers among occupations. Above all, it demands the easiest possible access by workers in low-wage occupations to highly productive and unusually remunerative employment. Unionism implies ability of established workers in high-wage areas and occupations to insulate themselves from competition, excluding inexperienced new workers and qualitatively inferior labor from their markets. It enables an aristocracy of labor to build fences around their occupations, restricting entry, raising arbitrarily the costs and prices of their products, and lowering the wages and incomes of those outside, and of the poor especially.

In passing, let me propose, as something better than half-truth, the generalization that, by and large, employers get the kind of labor they pay for.<sup>8</sup> Highest enterprise

<sup>8</sup> This persuasion will explain my diffidence about problems of labor monopsony, i.e., about the one or only argument from pure economic theory which condones labor monopolies. There are, I believe, no important cases in fact where employers face, and act in terms of, wide discrepancy between average cost (wage) and marginal cost of labor. In any event, such phenomena are short-run and short-lived; and the

earnings usually go with highest wage rates; and so-called marginal firms commonly pay both their workers and their owners rather poorly. Some people deduce from these facts the conclusion that wage increases, whether enforced by legislation or by unions, will be relatively costless, forcing economies in management and improvement in methods. This argument, unfortunately, can also be employed to demonstrate that excises are the best device of taxation, since, as some classical writers argued incautiously, they tend to be absorbed by inducing more economical methods of production! But the phenomenon in the labor market is not hard to explain on other grounds.

As between firms and even between industries, large differences in wage rates may persist without corresponding differences in costs. A single firm, offering higher wages than its competitors, may get better morale and co-operation which are well worth the cost; and surely it will be able to enlist and maintain a qualitatively superior labor force. A whole industry may accomplish the same thing, competing for labor with other industries.

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remedies proposed (save those suggested below, n. 11, p. 15) are worse than the affliction. Moreover, the usual rational analysis in terms of short-run marginal costs of monopsonists, like corresponding analysis in terms of marginal revenues under monopolistic competition, is fundamentally irrational; no sane enterpriser would ever behave in accordance with the Robinson-Chamberlin prescriptions for maximizing profits—and, on their own premises, would lose his shirt if he did.

Incidentally, I am wholly intolerant of the apology usually made, for labor monopolies and for almost every particular racket, that "everyone is doing it." A prominent educator is alleged recently to have said, also by way of apology: "There is no *public* interest any more; there are only *interests*." If such statements are true, moral, or realistic, we should all make careers in the army and assert that military dictatorship is the only feasible foreign policy and the only means to internal peace or prosperity! Another implication is that nothing should be done about anything until everything has been done about everything else.

Depending upon prevailing rates of pay, one industry may get high-quality labor in all firms; another, very mediocre workers. Thus, wage concessions to organized groups may at the outset cost nothing at all, to a firm as against other firms or to an industry as against other industries. All that happens is that quality standards are raised and inferior workers more rigidly excluded.<sup>9</sup> But downgrading cannot go on forever; the trick works only if it is confined to a few cases; we should guard here against fallacies of composition. The automobile industry may employ only the best human material, leaving other industries to absorb lower grades. But beyond narrow limits wage increases will not permit corresponding improvement in quality, even for a single firm. When all industry or many industries try the trick, poorer labor is simply frozen out and driven into unemployment or into much less remunerative and less socially productive employment where standards are less severe. In the old days the steel industry, the garment industry, and coal-mining, with all their abuses, did absorb and train a great mass of low-grade immigrant labor. What industries will do this job for us in the future? Where, to repeat, is our surplus agricultural labor going to be absorbed? Surely not in steel, which has now little place for anything but the best.

Consider also the untoward effects of standard rates on new and venturesome enterprise. The most vital competition commonly arises from firms content to experiment with new locations and relatively untrained labor. Such enterprises must offer workers better terms than they have received in alternative previous employment but cannot offer the wages paid to highly specialized, selected workers in

established centers. If compelled to offer such terms, they will not arise. Yet it is obviously one of the finest services of new and venturesome enterprise to find better uses for existing labor and to employ more productivity than theretofore labor resources which need not be confined to activities of low value. Indeed, every new firm must do this in large measure. Old established firms have skimmed off the cream of the labor supply and have trained their workers to a substantial superiority over the inexperienced. If potential competitors must pay the same wages as old firms, the established enterprises will be nearly immune to new competition, just as high-grade workers are immune to the competition of poorer grades. Here again one sees an alarming identity of interest between organized workers and employers and a rising barrier to entry of new firms, as well as to entry of new workers.<sup>10</sup>

Let me now propose some generalizations about wages and ideal wage policy, whether for a democratic capitalism or for a democratic socialism. To avoid the confusion and sophistry of "purchasing-power" arguments, we may simply abstract from monetary disturbances and deflations, supposing that the government successfully maintains a sound and highly stable currency, i.e., a stable value of money or price index. This means that we shall be largely concerned here with principles of relative wages, since changes in average wages at relatively full employment imply changes in the general level of commodity prices, wages being the predominant element in costs.

The proper wage in any area or occupational category is the lowest wage which will bring forth an adequate sup-

<sup>9</sup> There is, I presume, little question that strong unions do commonly deliver really high-quality labor.

<sup>10</sup> Given genuine solicitude about small businesses (and mainly misguided proposals for financing them), repeal of the Walsh-Healy Act merits consideration.

ply of labor in competition with other employment opportunities. "Adequate supply" is ambiguous as it stands but will usually be interpreted correctly if not defined. It may, of course, be defined as the supply necessary to equate the productivity of transferable labor as between the industry or occupation in question and other alternative employments. In other words, it is the wage which will permit the maximum transfer of workers from less attractive, less remunerative, less productive employments. Broadly, for factory employment in general, it is the wage or wage level which will condemn the minimum number of workers to casual labor and to subsistence agriculture. We imply that any wage is excessive if more qualified workers are obtainable at that wage than are employed — provided only that the industry is reasonably competitive as among firms. Reduction of rates would permit workers to enter who otherwise would be compelled to accept employment less attractive to them and less productive for the community or to accept involuntary unemployment. This amounts to saying that any relative wage may be presumed to be too high if it requires the support of force (organization) or law.

The basic principle here is freedom of entry—freedom of migration, between localities, between industries, between occupational categories. If such freedom is to exist—and it is limited inevitably by costs and by defects of training and experience—wages must fall to accommodate new workers in any area to which many qualified persons wish to move. Freedom of migration implies freedom of qualified workers, not merely to seek jobs but to get them; free entry implies full employment for all qualified persons who wish to enter. Whether the wage permits an adequate family scale of living, according to social service workers, is simply ir-

relevant—as, indeed, are the net earnings of employers. What really matters is the judgment of workers, who would be excluded by an excessive wage, as to the *relative* merits of the employment in question and of employment in the less attractive alternatives actually open to them. Other things equal, the wage is too high if higher than the wage in actually alternative employments. Ethically, one cannot go beyond the opinion of qualified workers seeking to transfer. If in large numbers they prefer employment here to the alternatives and cannot get it, the wage is excessive. A case may be made for supplementing, by governmental expenditure, the family incomes of workers of low productivity, but not for keeping them idle or for confining them to less productive as against more productive employment.<sup>11</sup>

Now freedom of entry is peculiarly essential in the case of unusually remunerative employments, if one believes in greater equality of opportunity. Only by permitting the freest movement upward through wage categories can we minimize economic inequality and maximize incomes at the bottom of the scale. But it is exactly the high-wage industries which invite and facilitate organization; and it is the favorably situated who have most to gain by exclusion, restriction, and monopolistic practices. At best, no labor organization is likely to be more unselfish or to make less use of its powers than the American Medical Association; and, considering its loose organization and small

<sup>11</sup> Perhaps the best investment by government in better labor standards is improvement of labor exchanges and public employment agencies, facilitation of labor mobility and migration, and systematic informing of enterprisers about areas of labor redundancy, actual and prospective. Labor markets can and should be made more competitive as among firms, industries, and localities and more flexible, as well as less monopolistic, on the supply side. All this is proper and urgent public business.

power, the comparison is surely alarming.

Organization is a device by which privilege may be entrenched and consolidated. It is a device by which the strong may raise themselves higher by pressing down the weak. Unionism, barring entry into the most attractive employments, makes high wages higher and low wages lower. Universally applied, it gets nowhere save to create disorder. Surely we cannot all get rich by restricting production. Monopoly works when everyone does not try it or when few have effective power. Universally applied, it is like universal uniform subsidy paid out of universal, uniform taxation, save that the latter is merely ridiculous while the former is also incompatible with economy of resources and even with order. But the dictator will be installed long before monopoly or functional organization becomes universal. Must we leave it to the man on horseback, or to popes of the future, to restore freedom of opportunity and freedom of occupational movement?

Unionism is only incidentally a means for raising labor incomes at the expense of profits or property income. Profits are usually a small moiety, sometimes positive and often negative; and all property income is a margin whose reduction by particular wage increases reacts promptly and markedly upon employment, production, and product price. Increased labor cost in particular areas has its impact upon earnings but, as with excise taxes, the burden or incidence quickly transfers to the buyer of products, if not to sellers of services, via output changes.

Labor demands may be rationalized and popularized as demands for a larger share of earnings—as part of a contest over the shares of labor and capital in particular outputs. But enterprises remain essentially intermediaries between sellers of services and buyers of product. The semblance of struggle between labor and

capital conceals the substantial conflict between a labor monopoly and the community; between organized workers and consumers; and especially between established workers in more remunerative occupations and workers elsewhere. The masses of the unorganized and unorganizable lose as consumers; they lose by being denied access to higher-wage areas; and they lose by an artificial abundance of labor in the markets where they must sell, i.e., by being forced to compete with workers who should have been drawn off into the higher-wage occupations. And let no one infer that their problem would be solved if they too were organized. The monopoly racket, like that of tariffs and subsidies, works only so long as it is exceptional—works only to advantage minorities relatively, with over-all diseconomy and loss.<sup>12</sup>

Let me now explain an earlier dictum that proper wages are a matter of alternative employment opportunities and not of enterprise earnings or profits. In wage negotiations and arbitration the level of business earnings is usually given much stress—by management if they are low and by unions if they are high. The impli-

<sup>12</sup> One may recognize the possibility that, with wide or universal organization of workers, federations of unions might enforce some moderation of wage demands and of exclusive, restrictive practices among the labor aristocracies. Such internal discipline among and between unions is a real contingency in small, homogeneous nations like Sweden (especially if complemented by a strong free-trade tradition). In a vast nation or a culturally heterogeneous population, the possibility may be dismissed as utterly unsubstantial. Moreover, the development of such effective "regulation" would involve radical constitutional change in the political system, i.e., reduction of the Congress or national legislature to a status not unlike that of the British crown.

It is interesting to note that Swedish co-operatives have at times discharged functions of our Anti-Trust Division—which is not a decisive reason for abolishing that agency here!

cation is that the proper correction for large earnings, if not for losses, is wage increase. This plausible notion, however, does not bear much examination.

In a world of continuous innovation, change in relative costs, and change in consumer tastes, new industries appear and old ones vanish; and among enduring industries some are always rising and others declining in the economy. When one industry enjoys an unexpected or inadequately anticipated improvement of demand conditions or production methods, earnings will rise markedly; and, with strong labor organization, this will mean larger wage demands. But should the industry meet such demands and share its earnings more largely with its existing employees?

Such adjustment, at least temporarily, is to be commended so far as it would occur in a free-market system. Employers would naturally seek to expand their outputs by drawing workers from competitors and by drawing them from other industries. However, if workers are not highly specialized—as they are not in the longer view—the relative increase here would be temporary, serving to attract young workers and to induce transfer where costs and sacrifices were moderate; and the long-term effect would be, not increase in relative wages but increase in the quantity and proportion of various kinds of labor in this as against other industries using similar kinds.

Where labor resources are not much specialized, the proper correction for inordinate rates of return on investment is not higher wages but larger investment, larger employment, larger output, and lower relative product prices. If the large earnings reflect monopoly restraint upon output by enterprises, as they occasionally will, measures should be taken to extirpate such restraint; monopoly in the labor market will only aggravate and con-

solidate restriction. Temporary increases in relative wages are justified if necessary to attract additional supplies of labor from other industries. If attained by collective, collective action of workers where supply is adequate or redundant, increases will serve, not to facilitate expansion of output, but to prevent it.

With strong organization, increased earnings will always be accompanied by demands for higher wages. If the earnings increase is general, and if there is little unemployment, the wage increases will be economically necessary and desirable. Gradual secular increase is to be expected in a progressive economy. But note the awful effects of adjusting *relative* wages continuously to relative earnings. Even in a vigorous and healthy system, some industries and employments will always be contracting, relatively and absolutely. Given free markets, the slack will readily be taken up by industries where demand conditions are improving. Expanding industries will absorb the labor released by those which contract—but only if the opportunities for expansion are not blocked by arbitrary increases of costs, i.e., if the stimulus of relatively high business earnings reacts mainly upon employment rather than upon wage rates.

With strong organization, established workers in expansible employments are in a position to prevent expansion and must do so to capture for themselves the full advantage of favorable changes affecting their industry or product market. Ethically, they should share their gains with the community as consumers and with outside workers for whom expansion of output would permit transfer from less remunerative employment. But no group will practice such sharing if it has power to prevent it.

The situation here is especially alarming when one considers it from the view-

point of enterprises or investors. In a free-market world, every commitment of capital is made in the face of enormous uncertainties. One may lose heavily or gain vastly, depending on unpredictable (uninsurable) contingencies. For reasonably intelligent investors, however, the gamble, with free markets, is a fairly even one with chances of gain balancing roughly the risks of loss—relative to a conservative commitment, say, in government bonds. The willingness to take chances, to venture with one's property, especially in new and novel enterprises, of course, is the very basis of our whole economic and political system. It is now gravely jeopardized by developments which tend ominously to diminish the chances of loss.

Much has been made of our taxes as factors inhibiting enterprise; but their effects on this score are, I think, grossly exaggerated and, in any case, concern mainly structural faults in our levies which are, in the main, quite as inimical to equitable progression as they are prejudicial against enterprise. We can, by proper reforms, mitigate the bias of taxes against venturesome investment, while strengthening the progressive principle and applying it more fully. But the bias against new investment inherent in labor organization is important and cannot be removed by changes in matters of detail. Investors now face nearly all the disagreeable uncertainties of investors in a free-market world plus the prospect that labor organizations will appropriate most or all of the earnings which would otherwise accrue if favorable contingencies materialized. Indeed, every new, long-term commitment of capital is now a matter of giving hostages to organized sellers of complementary services. Enterprisers must face all the old risks of investing in the wrong places—risks of demand changes, of technical obsolescence in plant

facilities, and of guessing badly only because too many others guessed the same way. Besides, they must risk being unable to recover the productivity which their assets would have if there were free-market access to complementary factors. The prospect for losses is as good as ever; the prospect of profits is, in the main, profoundly impaired.

If we are to preserve modern industrial production without totalitarian control, we must solve the problem of private investment. There is now much profoundly foolish talk of economic maturity and of technically deficient outlets for new investment. Such talk is plausible for those who would evade hard problems and unpalatable facts; and it is more than welcome to those who pray for revolution here. It invites defeatism among those who cherish democracy; and it counsels policies which eat away the foundations of democracy in our economic way of life. But the phenomenal deficiency of private investment in recent years requires for explanation no recourse to factually unsupported (and, I believe, grossly false) conjectures about "real" investment opportunities. I believe that investment opportunities were never so large as now; that our highest thrift would not for generations permit enough investment to lower interest rates substantially, if owners of new capital assets could be assured of free-market access to labor and other complementary factors (mainly indirect labor). But the prospect of such access has diminished everywhere. Every new enterprise and every new investment must now pay heavy tribute to labor (and other monopolies) in acquiring its plant and equipment; and it faces the prospect of increasing extortion in its efforts to utilize facilities after they are constructed. (Labor monopolies are highly concentrated in construction and in capital-goods industries generally; they are also peculiarly

characteristic of the more capital-intensive industries).

I am not concerned here with corruption and dishonesty among labor leaders, or with their salaries, although much can and should be said on that score. The whole scheme of monopolizing labor markets obviously invites abuses of bribery and extortion, and use of power by leaders for both political and pecuniary advantage to themselves. But, for purposes of argument here, I am willing to ignore personal corruption and private extortion, i.e., I am willing to suppose that unions are always managed scrupulously and faithfully in the interest of the overwhelming majority of their established members. When I say that investors and enterprisers face an alarming prospect of extortion at the hands of organized sellers of labor, I refer merely to the prospect that bargaining or monopoly powers inherent in organization will be exercised fully, in a manner now recognized and sanctioned as proper and legitimate. There is every prospect that opportunities for collective, collusive, monopolistic action in particular labor markets will increase indefinitely wherever organization is possible. This prospect alone suffices to explain the ominous decline of private investment and the virtual disappearance of venturesome new enterprise.

In the name of equalizing bargaining power we have sanctioned and promoted the proliferation of militant labor monopolies whose proper, natural function is exploitation of consumers. The ultimate burden of their exactions will not fall mainly upon industrial investors or enterprisers; but enterprisers, as intermediaries, will bear the impact of new exactions and may expect to see earnings continuously pressed down to such extent that average expectations are utterly discouraging. For industrial investors, the result is much the same as though the state had promot-

ed organized banditry and denied them all protection against it—while offering unusual safeguards to holders of idle funds (deposits) and large new investment outlets in government bonds (not to mention “tax-exempts”).

We face a real problem in economic inequality. This problem can be handled easily and without serious diseconomies, if one is not hysterically in a hurry, by progressive taxation of income and inheritance. Merely by repairing a few structural flaws in our income tax, we could assure steady reduction of inequality in property incomes and continuous correction of wide disparities in non-property incomes. But radicals and power-seekers have little interest in such dull, peaceful, orderly, efficient, gradualist methods. So they have simply ignored critical issues in tax reform and plumped for labor organization. They have promoted the organization of innumerable industrial armies, with implicit sanction to employ force, coercion, and violence to the full extent of their power, at least to prevent competing sales of services at rates below their own offers. We are told that violence is essential only in the organizing phase; that it will disappear afterward as organization is achieved and recognized—which, of course, is true. Organizations which have attained power need use little overt violence to maintain it. However, it is only the middle phase of unionism or syndicalism which is non-violent. There is much violence at the start inevitably; but there is more and worse violence at the end, involving total reconstitution of the political system. Somehow, sometime, the conflict between the special interests of labor monopolies and the common interest must be reconciled. Beyond some point their exactions become insufferable and insupportable; and their power must be broken to protect the general welfare.

Romantic socialists, having the politi-

cal sense to support unionism, ask us to believe that the whole problem of functional minorities would simply disappear if ownership and management of industry passed into government hands. Organizations, having fought and bled to attain monopoly powers, allegedly will simply give up their powers on the coming of the socialist state, begging the good socialists to reduce their wages so that prices may be lowered and new workers inducted wholesale into their occupational preserves. All this, to say the least, seems highly improbable!

The political alliance between socialists and unionists is fundamentally anomalous. Socialism, if it is to be democratic at all, must utilize a price system and must adhere closely to ideal competitive norms. Unionism, on the other hand, rests basically on rejection of free pricing in labor markets—and this is no less true of industrial unions than of trade-unions. Socialism must preserve the greatest freedom of occupational migration. Unionism must, except by deliberate forfeiting of its powers, create barriers against competition and immigration. Socialism must concern itself about consumers and workers generally; unions must represent and promote the special interests of their own particular minorities.

But, to pursue my point, progressive taxation is a workable, democratic method for dealing with inequality. The alternative of unionists is to send workers out in packs to exploit and expropriate by devices which resemble those of bandit armies. The one device is inherently orderly, peaceful, gradualist, and efficient. It is the device of law. The other is inherently violent, disruptive, and wasteful in the extreme. One calls for debate, discussion, and political action; the other, for fighting and promiscuous expropriation.

Unionists are much like our commu-

nist friends. They are good fighters and like fighting for its own sake. They are extremely effective at undermining the political and economic system which we have but are surprisingly unconcerned and inarticulate about the nature of the world which they would create afterward. In neither case is there much constructive thought. Communists are out to destroy capitalism; unionists are out to destroy competition in labor markets. The former talk a lot about the evils of capitalism but never tell us much descriptively about the good life. Unionists, on the other hand, have never bothered to draw us a picture of their utopia. In other words, they have taken unions for granted as necessary elements in the good society but have not bothered about the nature of the good society within which unions would be good.

Scholars will protest that these overstatements ignore a great mass of anarchist, syndicalist, and guild-socialist literature. However, one may assert categorically that such literature offers no democratic solution for the problems in question. Anarchism has the merit of stressing values which have proper place in any sound value scheme, although they can have major or primary place only in the constitution of heaven. It may be regarded as the idealistic conception to which traditional liberalism represents the closest practical approach. While anarchists deplore all organized coercion, liberals would confine it narrowly within the limits of impersonal justice, of rules of law imposed only on the basis of consensus arising out of free discussion. They would limit the range of governmental functions, especially for the larger units of government between which persons are least free to move; and they would defend competitive private enterprise as the only system of control compatible with that measure of decentralization of power which affords

real protection against tyranny and chaos. Government by discussion of impersonal principles of policy and by the objective discipline of free competition is the practical answer, in a world of elaborate productional organization and intricate differentiation of human activity, to the perfectionist plea for heavenly freedom.

In spite of seemingly intimate connection between syndicalism and anarchism, they can be related closely in principle only by adopting the vulgar parody of anarchism as dynamiting and disorder. Syndicalism, in my humble opinion, simply cannot be formulated, as a scheme of political order, in such manner as to invite intelligent discussion or serious intellectual inquiry on details. Efforts in this direction, by English proponents of guild-socialism, may be commended as an honest attempt to define the outlines of the good society which might be realized by utilizing the actual institutional trends of their time. But the efforts must, on any realistic political analysis, be judged an utter, if magnificent, intellectual failure. I doubt if the Webbs themselves would now find convincing the proposal so laboriously worked out in their *Constitution*.

Guild-socialism, with all its surface appeal, remains, to realistic inspection, simply a projected chaos of pluralism—a multiplicity of industrial or occupational states, nominally disciplined by a legislature, representing the common interest but actually powerless against the stronger syndicates. The conception is perhaps less implausible to Englishmen, who have never lived with the syndicalism of American tariff legislation or experienced fully the democratic corruption of pension legislation. Here, we should clearly sense the fact that minorities, industrial or functional minorities especially, are the great nemesis to democracy and that democracy, if it survives, must,

above all, learn how to discipline and to de-organize such minorities as special-interest pressure groups. Guild socialism is the perfect prescription for exposing democracy hopelessly and fatally to a corruption which has spread endlessly even under the geographic basis of representation and organization that should have reduced the danger to a minimum.

Few Americans will straightforwardly espouse syndicalism or look with approval on Il Duce's corporative state. Few likewise will face the patent fact that we are rushing pell-mell toward and into that political order in the United States. Our formal political structure of course, retains its traditional character. Our legislators, state and federal, still represent geographic sections of the nation. But alongside this formal political structure arises now a structure of powerful organizations of labor, immune to prosecution as monopolies and largely immune to the proscriptions or penalties of other laws. An essentially syndicalist order (or disorder) may, of course, evolve or arise without formal participation of industrial or occupational organizations in the legislative process. Indeed, such organizations may exercise greater power as extra-constitutional political agencies than they could if they had direct representation in Congress, in state assemblies, and in county and local government.

The intricate pluralism of modern democracies is, of course, a commonplace among students of sociology and politics. Equally commonplace, however, is the fact that organized minorities are a continuing threat to democratic order and internal peace. The danger may arise dramatically in the case of churches, secret societies, vigilante movements, a Ku Klux Klan, or less dramatically, in the case of political machines, tariff lobbies, silver Senators, veterans' organizations, and farm blocs. In the main, however, we

have rarely or briefly endured political usurpation by minorities practicing violence and intimidation; and (save at federal levels!) we manage somehow to stop corruption and vote-buying short of insolvency and short of disintegration in political morality.

But, to repeat, we have never faced the kind of minority problem which widespread, aggressive, national and regional unions and their federations present. They are essentially occupational armies, born and reared amidst violence, led by fighters, and capable of becoming peaceful only as their power becomes irresistible. Other groups practice violence, of course; but few others practice it with general, public approbation or employ it at all without grave risks of punishment or loss of power. Peaceful strikes, even in the absence of overt violence or intimidation, are a meaningless conception when they involve disruption of an elaborate production process with intricate division of labor. What is obvious in the case of railways and utilities is similarly true of coal-mining, steel production, and ultimately of every important industry and occupation.

Some conservatives will defend labor organization in terms of the right of voluntary association as a basic privilege in a democratic system, while deploring the use of violence and intimidation. Obviously, the practical problem would largely disappear if laws protecting persons and property were enforceable and enforced against strikes, pickets, and labor organizers. But there are no absolute rights; and the right of voluntary association must always be qualified, *inter alia*, by prohibitions against monopolizing — against collusive action among sellers. Failing ability to use violence or to threaten it effectively, particular organizations could not practice heavy extortion or sustain it indefinitely; but they could

often tax the community substantially for a time and subject it to substantial, if minor, disturbances. The grave diseconomies of the theorist's pure cartel situation, in labor and other markets, are relevant to real situations, actual and possible; and protection of the public interest demands limitation of the right of association where the association is of people as suppliers of particular commodities or services.<sup>13</sup>

The point, in any case, is rather academic, for labor organization without large powers of coercion and intimidation is an unreal abstraction. Unions now have such powers; they always have had and always will have, so long as they persist in their present form. Where the power is small or insecurely possessed, it must be exercised overtly and extensively; large and unchallenged, it becomes like the power of strong government, confidently held, respectfully regarded, and rarely displayed conspicuously. But, to repeat, this apparent peacefulness of a maturing syndicalism is unsubstantial and deceptive. It marks a fundamental disintegration of the very bases of political order—a disappearance of free exchange and of the state's monopoly of coercion. Individual groups, securely organized and secure in their monopoly positions, may levy their exactions without overt violence and merely through peaceful political maneuvering (via the arbitration device especially). However, they necessarily restrict drastically the normal flows of trade, destroying general prosperity in their struggle for relative advantage, and reducing enterprisers and investors to a defensive, defeatist task of withdrawing their property, on the least unfavorable terms ob-

<sup>13</sup>Dr. Gerhard Meyer reminds me that all this is admirably stated in Dicey, *Law and Opinion in England* (2d ed.), esp. pp. 150 ff., 190 ff., and 467 ff. Dicey in turn reminds me that perhaps everything I have tried to say was better said by Bentham and the Benthamites.

tainable politically, into the dubious security of government bonds. Ultimately, this means disappearance of all opportunities for remunerative enterprise and investment, governmental or private, via excessive costs, actual and prospective. Moreover, it means a drying-up of government revenues, whether derived by taxes from return on private property or from socialized enterprise. It means also vastly increasing dispensations by way of unemployment relief and other meliorative measures.

A maturing syndicalism is the mature economy of our monetary and fiscal extremists. It is inherently unstable and unmanageable. It may be kept going, at income levels far short of our potentialities, by sufficiently large fiscal and monetary stimulation; and no one may wisely condemn policies which postpone revolutionary upheaval if postponement alone is possible. But we should face the fact that nothing else is ahead along this route. Especially, we should be skeptical of economic analysis and prescription which rests on the political premise that mass monopolies (and increasing enterprise monopoly) are ordained and assured for the future beyond any recourse of democratic discussion and orderly political process.

Our great minority and monopoly problem of the present and of the discernible future is the problem of labor organization. One may stress the right of voluntary association or, rather, the right of free entry into occupations. One may stress the right to bargain collectively on a national or regional scale or, rather, the right of free occupational migration. In neither case can one sensibly defend both categorically. If one is accorded and exercised, the other is curtailed or destroyed. The issue is simply whether wage rates should be determined competitively or monopolistically.

The obvious struggle within particular industries over division of earnings tends largely to obscure the more substantial identity of interest and functional complementarity of labor and employer organizations. Popularly regarded and defended as counterpoises to industrial concentration or enterprise monopoly, unions in fact serve mainly to buttress effective monopoly in product markets where it already obtains, and to call it into existence when it does not. Labor leaders have, indeed, a quite normal appetite for monopoly prices and for monopoly profits which bargaining power permits them to appropriate and to distribute among their members.

While extremely ill-informed, I know of no instance where a powerful union has proposed reduction of a monopolistic product price or given real support, singly or in federations, to anti-trust policy. On the other hand, N.I.R.A., like extreme tariff protection, was strongly supported by organized labor. The formal and enforced cartelization of the coal industry may be credited largely to the U.M.W. And, if some proposals of C.I.O. leaders for labor participation in management are not pure cartel schemes, I cannot identify the beast when I see it. If labor remains and becomes increasingly cartelized along industry lines, enterprises must be similarly organized for bargaining purposes—not only to present a united front and to recoup wage-increases from consumers but because labor itself will prefer, demand, and, in any case, compel such employer organization.

We have often been told that difficulties in collective bargaining, and mutual intransigence of the participants, were only vestiges of the frontier and would disappear as America caught up with European civilization. We have been chided for our backwardness and urged to seek that matter-of-fact acceptance of collec-

tive bargaining and that maturity in union-employer relations which have obtained in Germany, France, and England. It may seem unsporting, in these days, to note that history has recently played nasty tricks on condescending apologists for American adolescence and upon zealous importers of European institutions—but, in fact, these folk seem only more capable of ignoring history when it screams against their position than of misinterpreting it when it can be used plausibly for their purposes.

I do not maintain that German trade-unions caused I.G. Farben and the Nazi revolution, or that French labor caused the disintegration of the French army, or that I.C.I. and the awful state of English industry are attributable to national collective bargaining. I do hold that large and powerful labor unions are integral elements in a total institutional complex whose development is everywhere antithetical to economic freedom, to political liberty, and to world peace; that we should here stop the development short of the German or French denouement and short of the awful mess which is now the English economy; and that we cannot import and retain the labor-organization component of this complex or trend without importing the rest of it too. If western Europe had maturity in collective bargaining and labor relations and if England has it still, these facts argue strongly against abandoning our democratic adolescence.

We must alter our labor policy or abandon our anti-trust policy—as English businessmen so urgently recommend. If one big union is a *fait accompli* in, say, the automobile industry, that industry is all through as a competitive sector of our economy—and damned to full cartelization, if not to General Motors. Thanks largely to Thurman Arnold and, now, to an unprecedented sprinkling of intelli-

gent business leaders, the prospects for sound anti-trust policy are perhaps better than they have ever been, here or anywhere. Even if these prospects materialize abundantly after the war, however, the achievements must be frustrated and then sharply reversed unless accompanied or followed closely by reversal of recent trends in labor organization. If labor is tightly cartelized or syndicalized, enterprises must adjust themselves to the political realities. Even Arnold couldn't much deflect their deference or allegiance from the real *loci* of power.

Business leaders, even when qualified in terms of tolerance and wisdom, are hopelessly disqualified, by their fiduciary responsibilities if not merely by what they symbolize, for leadership in the hard part of this task. They can and may put their own house in better democratic order. That is no small job; but it is all that they can do toward reversing the syndicalist trend in America. And it is not enough—not more than a beginning. Labor-baiters of dubious repute will volunteer in hordes for the real task, and thereby aggravate enormously the sufficient difficulties. Much the same must be said of the conservatives who now dominate our two great political parties—men whose negligible capacity for frankness and whose stupid smartness in devious maneuver are perhaps a greater obstacle to solution than are the prospective harangues of professional demagogues on either side.

It is easy to argue that the whole problem is so hard and ominous politically that no effort should be made to solve or even to see it—that the real choice lies between a certain, gradual death of economic democracy and an operation or treatment which would cure if successful but is almost certain to kill. I am no forecaster and am not in direct communication with the Almighty. Consequently, I can only maintain that it is immoral to

take such absolute dilemmas seriously. Democracy would have been dead a thousand times if it paid much attention to historical extrapolations; and it is perhaps unnecessary to discuss now the shortcomings of temporizing expedients or appeasement.

If we can win this war, we can also win the peace; but, for world order even more obviously than for internal order, freedom of trade and exchange is simply indispensable. With free trade the world can gradually be welded into a securely peaceful, democratic whole; with it, we may work miracles in monetary and political co-operation, in raising standards everywhere by economic integration and by relatively unrestricted movements both of goods and of investment funds. We may become free, nationally and on a world scale, if we set as our goal the greatest possible dispersion of military, political, and economic (monopoly) power. Freer trade is, I insist, the *sine qua non* of a durable peace. Attaining it, we can, if we will, raise our own living standards indefinitely while raising standards throughout the world. Thus our momentary military dominance might be used, not merely to enforce peace upon the world but to create a world society which would gradually come to enforce peace upon itself, with America gradually discarding its military domination in favor of moral leadership and partnership in a common task of keeping open the channels of trade and preserving peace.

But there can be no free world trade without free internal trade in the dominant post-war nation. Free access to markets implies, not merely absence of tariffs, exchange-controls, and quota limitations, but opportunity to sell to competitive buyers and to buy from competitive sellers in every national market. Free trade among collectivism is a meaning-

less conception. Much the same must be said of free trade between substantially syndicalist nations. There can be no really free access to raw materials produced by monopolists or cartels, or to raw materials produced by workers organized to price their services monopolistically.

Given free internal trade, we might prosper substantially in isolation from the world (if it would permit us that isolation!). Given that free internal trade, however, we can prosper far more abundantly as part of a world economy and can lead the whole world into durable prosperity and peace. Thus, I submit that the peace will be won or lost in the field of American domestic economic policy. Other groups will bitterly oppose the necessary dismantling of our tariff barrier. However, if the battle for peace via free trade comes near to being won, it will, I think, be won or lost on issues in the field of labor policy.

The immediate issues will, of course, have to do mainly with our tariff. But labor groups, more effectively than others, may be expected to resist drastic reduction or elimination of protective duties. Even if we succeed in establishing free external trade, these groups will still be able to prevent necessary internal adjustments and to drive us back to protection as a short-sighted remedy for depression and unemployment caused by cost-price maladjustments. True, we might assure reasonably full employment at any level of money wages by sufficient injections of money and raising of the price level. But wartime experience indicates (what should be obvious on its face) that price-inflation is a hopeless method of lowering real wages of strong and strategically situated labor groups—that such policy means only an endless spiral of inflation. The post-war adjustment of wartime wages in our heavy industries will be enormously difficult in any case. Without

sharp reduction in many areas, private employment cannot revive adequately, save at a much higher price level; and forcing that higher level means not only expropriation of holders of defense bonds and other creditors but great risk of runaway inflation.

The peace will be won or lost on the simple issue of economic disarmament. The extreme nationalism of high protection, quota limitations, exchange controls, and bilateral trading must be swept away, at least among the leading protagonists in the present conflict. But movement in this direction cannot come unless there is

wholesale economic disarmament also *within* these nations. As nations, we must abandon the contest for dominance and subjugation, finding our proper places in a close-knit, integrated world economy whose markets and commodities are freely and equally available to all. As individuals, we must find and make our places in a domestic system of free exchange, instead of organizing into occupational or industrial states to pursue domestically a power contest which is the analogue of war among nations, and perhaps its most important cause.

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