

the goal of preserving our own free system. This is a time for hard bargaining, for insistence on a viable quid pro quo in the case of every action we might take to ease Soviet internal problems. . . ." And more generally, "How does a country of peaceful intent make its way through the maze of world politics? . . . It makes sure . . . that it has sufficient strength and resolution. . . . It seeks . . . the path of negotiation as far as other nations will go along. And it prepares itself, finally, to deter and if necessary, to repulse hostilities. To neglect any one of these elements of foreign policy is to invite disaster."

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**Power and Privilege: Labor Unions in America**

Morgan O. Reynolds

New York: Universe Books and the Manhattan Institute  
for Policy Research, 1984, 309 pp.

The purpose of this book is "to explain and interpret the behavior of unions and unionists—what they do, why they do it, and what effects their actions have . . . in light of contemporary economic analysis." Other labor economists have, of course, attempted this. But in my view none has succeeded as well as Professor Reynolds in cutting through the veil of rhetoric, emotion, and polemics that so often shrouds the activities and effects of unions in contemporary discussion. This is not an "anti-union" or "anti-worker" book: It simply seeks to improve our understanding of what unions do, making use of modern economics, especially developments in public choice and the economics of regulation.

Chapter 1 surveys "the enduring controversy over labor unions," paying particular attention to the role of ideas in the evolution of public policy toward unions. According to Reynolds, the government-sanctioned powers of unions exercised through work disruption, threats of disruption, and other kinds of pressure ultimately rest on some acceptance or tolerance by the general public. This is where intellectuals fit in: They have supplied arguments to make the coercive actions of unions appear reasonable. In particular, the intellectual argument for unions rests on two propositions: (1) individual employees are helpless in dealing with employers, and (2) unions are essential to give employees the ability to deal on an equal basis with an employer. After showing that neither of these views bears close scrutiny, Reynolds concludes that they are based more on "garbled sentimentality toward unions" than analysis.

Chapter 2 begins to present some of the much-needed analysis by discussing the economic nature of unionism. A positive view of unions is first presented which makes a very basic distinction. Namely, in a free society people ought to be able to associate freely with one another, to form "combinations of labor," as long as they do not interfere with the equal rights of others. Moreover, people ought to have the right to quit or avoid such associations as well. Thus, there is nothing inherently

objectionable about multiperson organizations called unions, and unions can often improve social coordination, at least in theory.

In reality, however, the practice of unionism is anything but conducive to a free society. Unions are essentially labor cartels which seek to “take competition out of wages,” to use a classic union slogan. As Arthur J. Goldberg, former general counsel of the AFL-CIO once wrote, “any labor union is a monopoly”; “it eliminates competition between employees for the available jobs.” Strikes have long been heralded as the major “weapon” in the union “arsenal,” and, as Reynolds points out, the violence surrounding strikes exposes the basic conflict in the labor market, namely, the conflict between organized and unorganized labor, not “labor” and “management.” Reynolds views strikes as a breakdown in the rule of law: “Hitting a person over the head with a baseball bat to take \$20 from his wallet is a crime on the street, but it is much less likely to be treated as criminal if the person wielding the bat is an organized [that is, unionized] worker in a labor dispute . . .” (p. 50). If the rule of law prevailed, says Reynolds, unions would not be able to coerce anyone. As the author demonstrates throughout the book, the long-run answer to monopoly unionism is to eliminate the special legislation, legal immunities, and other government empowerments and treat unionists like everyone else under tort and contract law.

Chapter 3 surveys a number of myths that have evolved and have helped unions achieve their special governmental empowerments. One myth is that “unions protect workers from employers’ superior bargaining power.” Reynolds shows that this belief is almost entirely without basis in theory or fact, and is largely a result of union propaganda, distortions emanating from the academic community, and the “rational ignorance” of the public. Another myth holding that “high living standards in the U.S. are due to a strong union movement,” is also exposed. Countries with very militant unions, such as England, have experienced wage growth far slower than in the United States, and there is much evidence that by impairing productivity unions actually impoverish a nation. Besides, if unions caused high living standards, one would have to accept the preposterous notion that poverty in say, India, could be eliminated by rapid unionization. The “company is the enemy” myth is also easily disposed of by recognizing that unions do not compete with employers, but rather with those who sell substitutes for their members’ services—rival unions, foreign workers, nonunion workers, labor-saving and cost-reducing machinery, and so on. The history of bitter, interjurisdictional disputes among unions is evidence of this, as is their historic opposition to free international trade. Finally, the notion that “unions protect workers against the abuse of managerial authority” is also dismissed as an unsubstantiated myth. Economic common sense would indicate that competitive labor markets are the ultimate protectors of employees, not union bureaucracies. Employers who fail to listen to employees’ grievances will have to pay higher wages to attract workers

in competitive markets, which ultimately leads to lower profits and possible bankruptcy.

Chapter 4 discusses the latest collectivist rationale for compulsory unionism, the “Harvard–National Bureau of Economic Research” view, as developed by two Harvard economists, Richard B. Freeman and James L. Medoff. The Freeman-Medoff view of unions, in a nutshell, is that unions are a vehicle for collective voice—for providing workers with a means of communicating at the workplace and in the political arena. Consequently, they generally increase productivity, promote economic equality, and are said to be democratic, noncorrupt organizations. This view is directly at odds with the alternative view (held by Reynolds) that unions are labor monopolies. In criticizing this approach to the study of unionism Reynolds correctly points out that the Harvard School simply ignores the past 20 years of research in public finance and public choice. It is no longer “legitimate” (not that it ever was) for economists to claim that a market that does not pass the test of some utopian ideal, for example, Pareto optimality, provides a necessary and sufficient condition for government intervention. Even if markets are not “perfect,” government intervention has a long record of making matters worse, not better, but this is ignored by the Harvard School. Freeman and Medoff claim that there are public goods and externality problems in the workplace that require government intervention in favor of unions, but ignore the fact that imposing one exclusive union bargaining agent on all workers will *create* externalities by benefiting some unionists at the expense of other workers. Moreover, their own data show this. For example, they find that unions reduce the dispersion of wages within unionized industries, indicating that less productive workers gain at the expense of more productive workers whose wages are dragged down toward the average “union rate.”

Reynolds also finds inconsistencies in the productivity-enhancing views of the Harvard School and, finally, points out that unions are anything but democratic: They are basically autocracies. Less than 10 percent of American unions actually hold elections for their leadership, and in those which do, the candidates are usually chosen by executive boards whose preferences are rarely challenged effectively.

Chapter 5 is a summary of many of the laws and regulations that render unions privileged organizations in American society, and which give them special advantages over other citizens and groups. It is shown how unions have almost always depended on special legislative privileges for, like all other cartels, market forces render them unstable over time. Union reliance on special legislative treatment is demonstrated in a thorough discussion of the Norris-LaGuardia Act, the Wagner Act, and other depression-era legislation. Reynolds abolishes the myth that these laws were depression-era responses to “market failures,” as has long been argued by academics, and shows how the laws were passed to create monopoly power in the union representation business. They were

not “public interest” laws, but laws that promoted the private self-interests of unionists, politicians, bureaucrats, some academics, and even a few businessmen.

Chapters 6 and 7 survey the economic effects of unionism, while chapter 8 discusses the “new unionism in the public sector.” In this chapter we are shown how, as with private sector unions, special legislative treatment has contributed to the power of public employee unions. This special treatment enables their members to earn as much as 40 percent more than equally qualified private sector workers, not counting the superior pensions, fringe benefits, and working conditions that often exist in the public sector.

Chapter 9 sets the record straight on the relation between unionization and inflation. Although unionization may affect *relative* prices, it does not necessarily have anything to do with the cause of a continual, sustained increase in the price *level*. Monetary growth in excess of the growth of real GNP is the cause of inflation. The subtle point about the role of unions in the inflationary process is that they, and their interest-group allies, are strong lobbyists for expansionary governmental policies that ultimately lead to the monetary growth that causes inflation.

Just when you’d thought you’d heard it all, chapter 10 discusses even more “contradictions of unionism.” This may sound a bit repetitive to the reader of this review, but since unions, politicians, and academics have spent the past half-century spreading misinformation and propaganda about unions, several other books could easily be written on the subjects covered in chapter 10. Here it is shown that, contrary to popular mythology, unions have long been anti-free enterprise (look at their support of an interventionist “industrial policy,” for instance); they are a major source of racial discrimination (W. E. B. DuBois called them “the greatest enemy of the black working man”); corruption is a major feature of unionism (ask anyone in the construction business); and unions promote political corruption and instability.

The final chapter concludes that unionism is “a subset of the man-made restrictions on human action.” In short, unionism is an important element of the collectivist movement in America.<sup>1</sup> Reynolds discusses the future of unionism which includes a trend toward what has been called “pushbutton unionism,” union reliance on pressure directed at employers and government, rather than employees, to keep members.<sup>2</sup> Finally, the author points to a way out of the problems created by unionism: restoring equality before the law. This is not to suggest “anti-union” or “anti-worker” legislation, but simply to repeal the legislative privi-

<sup>1</sup>For a more detailed discussion of the role of labor unions in the collectivist political movement in America, see James T. Bennett and Thomas J. DiLorenzo, *Destroying Democracy: Government Funding of Partisan Politics* (Washington, D.C.: Cato Institute, 1985).

<sup>2</sup>James T. Bennett and Thomas J. DiLorenzo, *Labor Unions and the State: The Political Economy of Pushbutton Unionism* (Dallas: The Fisher Institute, 1985).

leges that have enabled unions to earn monopoly profits by the use of force and threat at the expense of everyone else in society. More specifically:

[T]he right thing to do is to deregulate. Try freedom for a change. Repeal, abolish, rescind, revoke, and do away with the Railway Labor Act, the Norris-LaGuardia Act, and the National Labor Relations Act. Also abolish the commissions, executive orders, state laws, rulings, administrative orders, and regulations derived from the three major statutes. Restore the rule of law in labor relations by treating unions in a manner consistent with the way everyone else is treated under contract and tort law. Treat workers and worker organizations as responsible adults, not as children who are exempt from the rules of peaceable conduct. [p. 264]

If more people became aware of the truths about unionism that Professor Reynolds has revealed, the prospects for greater freedom would surely improve.

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#### **The Theory of Public Choice—II**

Edited by James M. Buchanan and Robert D. Tollison  
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This is the second volume of papers devoted to public choice theory edited by James Buchanan and Robert Tollison. Twelve years elapsed between the 1972 publication of the original *Theory of Public Choice* and the current volume. Comparison of the two volumes (hereafter referred to as PC-I and PC-II) gives some insight into how public choice has developed in the intervening years. This perspective is somewhat blunted by a disproportionate representation of the "Virginia school of political economy," especially in PC-I. Because the Virginia school has been the source of so many contributions to public choice theory, however, the parochial selection process does not seriously detract from the value of the two volumes.

In his introduction to PC-I, Tollison concluded that "[t]he 'theory of public choice' remains on the threshold of development." A theme of his preface to PC-II is that public choice is well past the threshold of acceptance as a legitimate subdiscipline in economics. He notes the growth of the journal *Public Choice* and also that public choice articles are now more widely published in major economics journals than was the case in the 1960s and early 1970s. A comparison of original publication outlets for the papers in PC-I and PC-II supports this observation. In addition, textbooks in public finance routinely include material on public choice. Students are also receiving exposure to the field in some major elementary textbooks.

The first two papers in PC-II, following Tollison's introduction, provide an excellent overview of public choice. James Buchanan's "Politics without Romance . . ." is a concise summary of the origins of public