
Readings

The Rip-Out Rip-Off

The Asbestos Racket: An Environmental Parable

by Michael J. Bennett
(Merril Press, 1991), 241 pp.

Reviewed by Brooke Taylor Mossman

This riveting account of the motives and politics behind the asbestos panic in the United States should be required reading for congressional representatives, school administrators, realtors, and others who have been led to believe that asbestos in buildings poses a significant health risk to general occupants. As stressed in the forward by Reed Irvine, chairman of Accuracy in Media, Michael Bennett, a former deputy public information director of the Occupational Safety and Health Administration who was once nominated for a Pulitzer Prize for his series on asbestos for the *Detroit News*, goes to the root of federal policy on asbestos and the “mass madness” propagated by the government, media, and a burgeoning asbestos removal industry. He exposes a projected \$150 billion to \$200 billion asbestos rip-out campaign, which in many cases has actually increased concentrations of asbestos in air and cancer risks to untrained and unprotected asbestos removal workers.

Asbestos is a naturally occurring group of mineral fibers used since the Industrial Revolution in thousands of products because of their resistance to heat and their tensile strength and durability. The different types of asbestos can be classified into chrysotile fibers, which have consistently accounted for 90 to 95 percent of the world’s industrial usage of asbestos, and amphibole asbestos, which includes amosite and crocidolite fibers, the latter having been used in World Wars I and II as insulation in battleships. Reports that asbestos

workers developed fibrosis or scarring of the lungs in the early 1900s led to legislation in Europe and the United States in the 1930s that restricted exposure to asbestos in the workplace. In the 1940s asbestos production soared as it was used increasingly in brake linings and was incorporated into buildings and schools as insulation, textiles, and ceiling and floor tiles. Approximately 95 percent of bulk asbestos installed in buildings was chrysotile. In the 1950s the noted epidemiologist, Sir Richard Doll, made the association among asbestos, smoking, and lung cancer in asbestos workers. That was followed by South African Dr. J. Christopher Wagner’s 1960 discovery of mesothelioma, a tumor of the body cavities associated with exposure to amphibole asbestos.

The campaign of public misinformation began in the late 1960s when Dr. Irving Selikoff of Mount Sinai Hospital in New York published a scientific study with inappropriate controls showing synergistic effects between smoking and exposure to asbestos in the development of lung cancer in a large cohort of U.S. insulation workers. Selikoff’s flair for the news media, his profitable associations with labor union leaders and lawyers, and his alliance with Paul Brodeur, a reporter for *The New Yorker* who catapulted Selikoff’s findings into the press, established asbestos as an occupational and environmental enemy. As Bennett painstakingly documents, Selikoff’s studies conclusively proved that cigarette smoking was the primary agent and a more potent cause of lung cancer in insulation workers than asbestos, but Brodeur’s articles ignored those crucial facts. Other misconceptions advanced by the Selikoff-Brodeur team included the “one fiber can kill theory,” which implied that any exposure to asbestos is lethal, and the concept that all asbestos types are equally dangerous—a fable that has been disproven by many reports in the peer-reviewed scientific literature. Dozens of authorities have concluded that chrysotile, the predominant asbestos fiber used in the United States, presents a

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substantially lower risk of mesotheliomas in asbestos workers than crocidolite or amosite asbestos.

Bennett convincingly describes the chain of events leading to the purposeful misclassification of asbestos as an environmental carcinogen, which was extrapolated from legitimate concerns about its role as an occupational carcinogen when encountered at high airborne concentrations in the unregulated workplace. In the 1960s the environmental movement was flourishing, and Rachel Carson's book, *Silent Spring*, arguing that there can be no safe level of exposure to any carcinogen, became dogma. The formation of the Environmental Defense Fund and Nixon's creation of the Environmental Protection Agency resulted in the banning of the pesticides DDT, aldrin-dieldrin, and heptachlor-cholorodone, and new targets were needed for regulations. At that juncture Selikoff testified before OSHA, using unsubstantiated risk estimates, that exposure to asbestos would cause 40,000 excess deaths per year. Those numbers were inflated further by a controversial "Estimates Document," signed by a few scientists subsequently unable to defend their views in the wake of severe criticism from the broad and highly respected scientific community. Consequently, asbestos became the number one environmental enemy and a stepping stone for EPA administrators and congressmen such as Rep. James J. Florio, who sponsored the Asbestos Hazard Emergency Response Act. That law, calling for all private and public schools in the U.S. to inspect for the presence of asbestos and to develop management plans for its control, was passed by Congress despite accumulating data showing that airborne levels of asbestos, even in buildings and schools where damage was evident, were infinitesimal in comparison with levels causing disease in workers. Warnings by scientists that unnecessary removals would result in elevated cancer risks in uneducated removal workers went unheeded.

Bennett's description of the politics and passage of the asbestos removal law and its consequences is fascinating—including the disclosure that Ruckelshaus, the first director of the EPA, tacitly agreed that the law was initiated to shift the financial responsibility for asbestos from the EPA to school systems. Moreover, in the late 1980s Ruckelshaus became the president of one of the largest asbestos abatement companies in the United States. Bennett is unrelenting, but justifi-

ably so, in his blame of individuals for the crash of the Challenger space shuttle that was traced directly to a ban on asbestos-containing products mandated by the Consumer Product Safety Commission and the substitution of a less effective putty to seal the O-rings in the rocket. Likewise, he severely criticizes the announcement of a total ban on asbestos by the EPA that has recently been rescinded by the Fifth Circuit U.S. Court of Appeals.

There are few heroes in the asbestos saga—most notably the scientists, including Dr. Malcolm Ross, members of the American Medical Association, and others who have questioned the EPA's overestimation of environmental risks due to asbestos as well as the expenditures of billions of dollars of public and private funds to remove asbestos. Those monies should be directed to more important and documented public health risks including the AIDS epidemic, drugs, and alcohol. An encouraging note is the release by EPA administrator, William Reilly, of a new guidance document entitled "Managing Asbestos in Place." That shift in policy stresses that "[r]emoval is often not the best course of action to reduce asbestos exposure" and emphasizes that asbestos removal is only required during demolition or extensive renovation of asbestos-containing buildings. Unfortunately, that message has not filtered through regulatory agencies and has been downplayed by the news media. Realtors and bankers are still urging building owners to remove asbestos despite the fact that concentrations of asbestos in air often remain elevated for months after removal and risks to removal workers are increased.

There are many lessons to be learned from Michael Bennett's book, including fundamental principles of toxicology and a current scientific understanding of cancer. The most important message, however, is Bennett's "call to action" as detailed in the final chapter. Bennett advocates a broad-based coalition of taxpayers, building owners, and health professionals with immediate and long-range goals including the formulation of a uniform set of state-of-the-art standards for dealing with asbestos in buildings. Moreover, he recommends a revamping of the EPA to allow more independent scientific input into decision-making and less attention to unjustified political agendas. Those are ambitious, admirable, and necessary goals if we are to learn from past mistakes.

Taxing Firms' Performance

Labor Unions and the Economic Performance of Firms

by Barry T. Hirsch

(W.E. Upjohn Institute for Employment Research, 1991), 142 pp.

Reviewed by Leo Troy

In this monograph Barry Hirsch has given one answer to *What Do Unions Do?* by Richard B. Freeman and James L. Medoff (Basic Books, 1985): they are bad for business! Hirsch compares the economic performance of comparable union and nonunion firms by using several standards: profits, investment in physical capital, expenditures on research and development, as well as advertising as a percentage of sales, and the ratio of debt to equity (higher in unionized firms). He finds that the unions' impact on those measures put organized firms at a competitive disadvantage.

When it comes to productivity levels and growth—the most important ingredient to successful economic performance of firms, workers, and the economy—Hirsch argues that “[n]either theory nor previous evidence provides unambiguous predictions as to union effects on productivity and productivity growth” (p. 117). The link to productivity growth, he says is “opaque.” Nevertheless, he also states that “even if unionism has no direct effect on productivity growth, it may affect it indirectly via union effects on growth-enhancing investments in physical and R&D capital” (p. 5). That does not seem “opaque” to me. Since unions have such deleterious effects on profits, R&D expenditures, and capital investment, I, for one, find it impossible to doubt that unions must also negatively affect growth as well as the level of efficiency.

Precarious as it may be, let me appeal to the widespread, if not universal, reaction of employers who deal or have dealt with union work rules and productivity (in contrast to academics who have not). Employers' comments on union work rules and their negative effects on efficiency are unambiguous. Is this a figment of their real-world imagination? Indeed, when told that academics contend either that unions enhance productivity or that their statistical results are ambiguous,

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employers are, to put it mildly, incredulous. If academics' findings are reliable, then employers should *beg* unions to organize their employees. Indeed, maybe universal unionization is the secret ingredient America needs to become competitive! Meanwhile, declining unionization of the private economy proceeds apace across all advanced industrial nations.

The unions' alleged positive effects on productivity are explained by what Freeman and Medoff termed exit-voice. I equate that with what the earlier literature dubbed industrial jurisprudence in the work place, my thought being that the more things change, the more they stay the same. The collective expression of workers' preferences through their union (the alternative to exiting voluntarily or not) is said to lead to what in earlier times was known as the economy of high wages—higher wages offset by greater productivity. But the collective voice adds something else again, what “the traditional view of economists” has always averred: a monopoly that damages productivity levels and growth. Hirsch agrees that the level of productivity associated with unionism is “inconsistent with the evidence on profitability and employment” (p. 94), but at the same time, he continues, “in the absence of empirical evidence, little can be said about the direct negative effects of union work rules and limitations placed on management.”

Hirsch's “on the one hand, on the other hand” comments on unions and productivity have been criticized in the homeland of the “British disease,” where recent studies by economists at the London School of Economics have found no evidence for the view that unions reduce productivity growth or for the view that union rent-seeking inhibits investment. Perhaps one day academics will find unambiguous evidence on the unions' link to (un)productivity, but at this stage there is a gap between rational expectations and academic findings.

Hirsch identifies his model as the union tax model, a label aptly suited for a review in *Regulation*. Unions are regulatory bodies; they arose in the eighteenth century as private substitutes for government (mercantilist) regulation when regulation crumbled in the dawning age of Adam Smith. As regulatory bodies customarily do, unions levy taxes, in Hirsch's model on quasi rents. Hirsch defines quasi rents as “returns accruing to previously installed physical, intangible, or



human capital above those obtainable in the capital's best alternative use" (p. 7). Quasi rents derive from the relative immobility of capital and labor; unions exercise their market power to share (tax) those rents. Quasi rents do not depend on imperfectly competitive markets; they arise even with free entry and open competition because they arise from the specialized character of the assets.

In Hirsch's model the sources that unions tax are the firm's quasi rents originating from innovative capital, R&D, and current earnings associated with limited foreign competition. The proportion of taxation varies across different tangible and intangible capital. The tax on long-lived capital, whose returns include normal returns, is substantial. To some extent firms can shelter their innovative capital by patents or licenses because they are mobile. The tax model also shows a strong negative relationship with company earnings and market value. By any measure the negative impact of unionism on company profitability and market value is large. Profitability (measured by Tobin's Q , the ratio of market value to replacement cost) is 20 percent lower in an average unionized company than a similar nonunion company, while the differential rate of return on capital is about 15 percent. While there is substantial variability in the profitability across industries, there is "[n]o evidence . . . [of] sizable or significant *positive* effects of unionization on profitability in any of the industry categories" (p. 48). As a result of union taxes on quasi rents, unionized companies invest roughly 20 percent less in physical capital

and R&D than do similar nonunion companies. (Are these findings not the flip side of the productivity coin?) Altogether, what unions do to the economic performance of firms is nothing to cheer about!

Hirsch distinguishes his tax model from the traditional demand schedule model of capital-labor substitution because his model can distinguish movement along the demand schedule from the effects of a shift in the schedule. Nevertheless, as Hirsch agrees, "[t]he standard model does predict, however, that the capital-labor ratio will increase in response to a wage increase" (p. 14). Does his approach improve our knowledge? One must answer yes, because the difference between Alfred Marshall's basic concepts of change in the quantity demanded (movement along a demand schedule) and change in demand (a change in the entire schedule) is fundamental in economic analysis.

Hirsch's analysis of the economic performance of firms subject to union taxation is characterized by his usual standards of diligent, careful research and lucid presentation. That is evident from the data, methodology, and detailed bibliography. I would like to see him apply his analysis to the economic performance of governmental agencies. I suspect that the outcome would be far more appalling than his findings in the private sector.

Briefly, I would like to express my disappointment with one important use to which Hirsch has put his scholarly work. In the initial and closing chapters he concludes that his analysis and results give substance to the claims of employer opposition to unionization as the primary cause of unions' decline in this country. He rejects structural changes as mainly responsible. He reiterates the Freeman mythology, the politically correct model, about U.S.-Canadian comparisons as evidence. Since I have space here only for limited observations (but have published extensively on this matter), let me summarize why Hirsch errs.

Freeman and Medoff stated that they rejected structural change as responsible for union decline in the United States, despite their own statistical findings upholding that explanation, because the Canadian labor market had undergone the same structural change as the U.S. labor market, but Canadian unionism continued to grow as American unionism declined. Therefore, something else must be at work in the United States, to wit, employer opposition. A Greek chorus of academics across this country, Canada, and Europe chanted the politically correct dirge: employer opposition in the United States was the difference!

Only that was not so! I have demonstrated that the Canadian labor market did not undergo the same change as the U.S. labor market, that it lagged the U.S. switch from goods to services, and that in Canada government services were a major—perhaps the dominant—component of the changeover, whereas private services dominated the switch in the United States. I have also shown that, contrary to “world academic opinion,” the emperor was not wearing any clothes: Canadian private unionism has tracked the decline of U.S. unionism, in membership since 1979 and in density since 1958. The official data combined government with private membership (and employment) and thus misled the politically correct analysis about events in Canada.

I also would ask Hirsch (and others), is not the substitution of capital for labor a structural change? In addition, I challenge the importance of employer opposition as a major factor in union decline. Employer opposition is both legal and illegal—a distinction typically ignored by the conventional wisdom. Given that union membership losses were so overwhelming (7 million over the past two decades), new organization could not

possibly offset them, irrespective of employer opposition—legal or not. Those losses came about because regulatory bodies (those who tax quasi-rents) met the marketplace in the new age of Adam Smith. (Incidentally, employer opposition itself is a market force.)

In the same vein, I ask of the conventional wisdom, what of *employee opposition* to unions? Yes, if one consults surveys done by the unions themselves and others, one would find that two-thirds of nonunion workers would reject union representation both in the United States and in Canada.

One final criticism of a work I regard as of very high quality: Hirsch errs in asserting in his introductory remarks that manufacturing declined in importance in the United States. (Deindustrialization is another myth of the 1980s.) The share of real gross domestic product originating from manufacturing has remained stable over the past quarter century or longer. On average, so has employment, when we take into account cyclical influences. What has changed is the output of manufacturing and the composition of its work force—fewer production and more white-collar employment.