

A New Perspective on a Labor Classic

Reviewed by George C. Leef

WHAT DO UNIONS DO? — A TWENTY-YEAR PERSPECTIVE

Edited by James T. Bennett and

Bruce E. Kaufman

653 pages; Piscataway, N.J.: Transaction, 2007

John Mackey, founder and CEO of Whole Foods, a company widely touted as among the best to work for in America, was recently quoted in the *Wall Street Journal* as saying, “The union is like having herpes. It doesn’t kill you, but it’s unpleasant and inconvenient.” That is one well-informed view of what unions do — they get in the way of business efficiency.

Unions have other effects, too, and economists have long debated what they are and their significance. In 1984, Harvard professors Richard Freeman and James Medoff published a book entitled *What Do Unions Do?* The essence of the authors’ analysis can be stated this way: Unions have two main effects. One is their “monopoly face,” which is what most economists have traditionally focused on. That is, unions attempt to secure and exploit their positions as monopoly providers of labor, thereby driving up wages. Freeman and Medoff concluded, as have most other economists, that the monopoly face of unionization is a negative — a drag on the nation’s output.

However, the authors also concluded that unions have another face, what they called the “response/voice” face. This is the effect unions have on workers and management through their efforts at smoothing out workplace disputes and reducing labor turnover. Freeman and Medoff argued that the “response/voice” face is strongly positive for the economy, outweighing the negative impact of

unions’ monopoly effects. Their book went so far as to contend that the United States would benefit from an increase in unionization.

Naturally, those ideas were greeted warmly in union and leftist circles. The book was greatly discussed back in the mid-1980s and it remains one of the most frequently cited works in labor law and economics.

Recognizing the book’s continuing importance, in 2004–2005 Professor James T. Bennett of George Mason University devoted six issues of the journal he edits, the *Journal of Labor Research*, to a symposium on the book. *What Do Unions Do? — A Twenty-Year Perspective* is a compilation of the 20 papers that appeared in the journal. It is a hefty volume with widely differing points of view. Most of the writers are academics, but papers from a business manager and a union advocate are included. Appropriately, Professor Freeman is given the last word. The discussion is learned, civil, and difficult to summarize in a short space. Indeed, several pages could be written on each of the chapters.

I have never understood how the nation could derive any net good from institutions that are as suffused with coercion as are American labor unions. Although several of the papers attempt to cast them in a favorable light, on the whole *Perspective* reinforces my negative view. Owing to extremely favorable legislation in the 1930s, labor unions have unique, quasi-governmental powers not enjoyed by any other private institution. It is an unfortunate gap in the book that not one of the writers devotes attention to the fact that labor unions are immeasurably aided in their formation and longevity by laws that restrict the rights

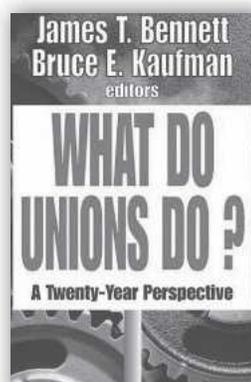
of both employers and workers who prefer not to deal with them. Unions supposedly exist to assist workers in obtaining better pay and working conditions. But because federal law impedes employer opposition to them (for example, by making it illegal to promise or give any benefit in exchange for the defeat of a unionization drive) and makes it difficult for dissident workers to avoid accepting and paying for union services they do not want, union officials are placed in an extremely powerful position. They are monopolists and, just as public choice theory predicts, they exploit that status. Some of the benefits go to union members in compensation above market levels, but much of the benefit is captured by union officials themselves. Unions are

not voluntary associations and they use their considerable clout in ways that push the country toward central planning. How can that be beneficial?

Freeman and Medoff’s contention that unions benevolently provide workers with “voice” comes in for serious criticism in several of the *Perspective* papers. While it is

apparently true that unionized firms enjoy lower quit rates, Professor Bruce E. Kaufman of Georgia State University observes that the optimal level of labor turnover is not zero. If the presence of a union makes it harder for a firm to discipline or fire slackers, the union may do far more harm than good in this regard. When one reflects on the extraordinary difficulty that big city school districts have in terminating bad teachers, it is easy to doubt Freeman and Medoff’s rosy conclusion.

Another argument for the benefit of unions is that unionized workers are more satisfied and therefore perform better than supposedly “voiceless” nonunion workers. Several *Perspective* contributors take issue with that notion. On the one hand, surveys of worker satisfaction do not unambiguously show that unionized workers are necessarily more satisfied; on the other, it is clear that firms that adopt human resource policies designed to be



George C. Leef is vice president for research at the John W. Pope Center for Higher Education Policy.

responsive to employee concerns can have very satisfied and productive workforces. That is to say, union representation is neither a necessary nor a sufficient condition for contented workers. Moreover, there could be even more “voice” for non-union workers if it were not for a provision in the National Labor Relations Act of 1935 prohibiting management from establishing or assisting any “labor organization.” This New Deal relic was designed to wipe out competition for worker loyalty in the form of company unions and it has been interpreted as outlawing company quality circles or other means of fostering cooperation. That section of the law would have been amended by a bill that passed Congress, but it was vetoed by President Bill Clinton at the insistence of organized labor. One thing unions do very well is to use government to prevent competition.

That brings up another aspect of the “voice” argument, namely that unions give workers voice in the political arena. Freeman and Medoff saw that as another benefit. Some of the *Perspective* authors note that organized labor has not been nearly as successful as its political opponents want people to think it is. I agree with that, but there is a further, crucial point: what is heard in the political arena is the voice of labor union officials. It is a mistake to assume that what union officials want necessarily coincides with what the rank and file workers want. Most of the legislation favored by the union brass is either of no interest to, or in some cases clearly harmful to, the average worker.

Unions have, for example, pushed hard for a “single-payer” national health care system. If a “single-payer” system were ever to come to pass, the manifold inefficiencies of such a scheme would be detrimental to most of the workers that union leaders claim to represent. Or consider the temporarily defeated “Employee Free Choice Act,” a bill that would make it easier for unions to dragoon more workers into their ranks by dropping the requirement of a secret ballot election before a union can be certified by the National Labor Relations Board. Secret ballot elections would be replaced with a “card check” procedure by which unionization is decreed once a majority of the workers sign cards attesting to their desire for union representation.

That is a very unreliable procedure fraught with opportunities for misinformation and intimidation, but the point to observe here is that it does nothing for workers who are currently in unions. Their dues money funds a lavish lobbying campaign for legislation that would not benefit them. I wish that one of the essays had clearly come to grips with the fact that the objectives of union bosses are often different from the objectives of the workers whose money they spend.

While on the subject of unions’ political activities, it is important to mention that their decline in the private sector probably has much to do with the success they have had in getting Congress to enact pro-labor legislation. Several *Perspective* contributors note that the demand for union representation has decreased to the extent that workers think workplace problems such as safety have been resolved through government intervention, not union action. Famed union leader Samuel Gompers argued that unions should not seek legislation that would undermine their strongest selling points, but his advice was forgotten when, for example, the bill establishing the Occupational Safety and Health Administration came along. So another of the things unions do is to turn reflexively to politics, foisting off

on the government functions they would have performed better themselves.

Turning briefly to the other side of the coin, Freeman and Medoff concluded that while unionization had some negative impact on firm profitability, the bite came mostly out of “excess” profits rather than the returns needed to keep firms in business. That is questionable, but in any event, the effect of unionization on profits tends to retard capital investment. *Perspective* contributor Barry Hirsch of Trinity University in San Antonio finds that, on average, unionized firms are 10 to 20 percent less profitable than are nonunion firms. Intelligent investors want to put their money where it will earn the most and naturally avoid companies and industries where unionization is apt to siphon away some unknown percentage of their return.

Freeman and Medoff attempted to provide a rationale for reviving the declining union movement, but that rationale was not very persuasive when it was first put forth in 1984. As much of the argumentation in *Perspective* shows, it is even less persuasive today. The United States is overdue for a rethinking of its authoritarian labor relations law. When that time comes, *Perspective* will have a role to play in shaping the debate. **R**

Ammo for the Border War

Reviewed by George C. Leef

IMMIGRANTS: Your Country Needs Them

By Philippe Legrain

374 pages; Princeton, N.J.: Princeton University Press, 2007

Many years ago, I was a guest on a talk radio program originating in California. The host wanted a speaker who would defend immigration. After I explained my position, he opened the call-in lines and for the next hour I was subjected to a barrage of attacks by irate callers. I was called a moron for not understanding that the “invading army” of immi-

George C. Leef is vice president for research at the John W. Pope Center for Higher Education Policy.

grants was devastating the state. I was told, for instance, that there were places in California where good English speakers would have trouble communicating because Spanish had become the dominant language. A real disaster.

There is even more of that sentiment today. To a greater or lesser extent, just about all politicians subscribe to the slogan that “We must control our borders.” The question is not whether, but how severely, we need to clamp down on illegal immigration, and many people want to further limit legal immigration.

The issues here arouse the same heated, emotional response as does free trade. Ask someone if he is happy with his Japanese car or Australian wine and he will say sure. But ask about the sum total

of all foreign trade and he will most likely flame out over the horrendous trade deficit. Similarly, ask someone about an immigrant he may know — maybe a health care worker who helps care for an elderly parent — and he will probably say that she is excellent. But if you ask about immigration in general, you will most likely get a list of reasons why it is a big threat and must be stopped.

Is there anyone who is willing to argue that immigration is a good thing? Yes. His name is Pierre Legrain, a British writer whose new book, *Immigrants: Your Country Needs Them*, boldly challenges the conventional thinking at every turn. He makes a powerful case that free movement of people is just as beneficial as the free movement of goods and capital. The book is carefully written; the argumentation is never the slapdash stuff of the xenophobes. But there is just a hint of anger at times when Legrain writes about the horrendous treatment many people have received merely because they would rather work somewhere other than where they were born.

Most of *Immigrants* revolves around the economics of immigration. Legrain sees the increase in immigration as another aspect of globalization. Just as goods and capital can now flow more easily than ever before to wherever they are most valued, so too with human beings. The author has no patience with the statist notion that people belong to “their” nation and should be constrained by political boundaries. He observes wryly that no one has any problem when talented, wealthy Americans zip around the globe to earn money with their skills, so why is it that many people react with horror at the thought of poor, dark-skinned people doing the same thing? (Substitute leaky boats or worn sandals for the jet planes, of course.) The economic realities are the same: there is a demand for the services that the jet-setters can perform and there is also a demand for the work that poor immigrants can perform.

In fact, there is a strongly increasing demand for workers at the bottom of the wage scale. We hear a lot of careless talk about how the United States is entering

“the information economy” with the implication that the demand for unskilled labor is drying up. Yes, the United States has increasing numbers of highly paid executives and professionals doing “knowledge work,” but they want all sorts of work done for them — cleaning the house, caring for elderly parents, waiting on them in hotels, etc. Fewer and fewer Americans desire to do such jobs, Legrain observes, so we ought to allow people who want to do them the freedom to work here. Our expanding economy needs more labor and many of the world’s poor nations have an excess of it. Why stand in the way of the operation of the “invisible hand”?

Legrain compares our efforts at “securing the border” with one of our most monumental follies: Prohibition. We cannot succeed in stopping the influx of immigrants any more than we succeeded in stopping people from making and drinking alcoholic beverages, and we get the same nasty effects we experienced with Prohibition: criminality, decreased respect for the law, and a vast black market. It is a most useful analogy. And just as Prohibition was famous for its violence and death, Legrain points out that there has been heavy loss of life because of our fixation with illegal immigration. The body count on land and sea of men, women, and children is appalling. Unfortunately, few people who constantly profess their dedication to humanity and “social justice” speak out against our lethal policies.

“Tough!” say the anti-immigrationists. “They’re breaking the law and have to accept the risks. And besides, we have to protect ourselves.” But against what are we protecting ourselves? Against foreigners who take jobs away from Americans, reply the anti-immigrationists. Legrain counters that no one can take a job away from someone else because jobs are a matter of contract. Even in the rare instance where an employer might prefer to contract with an immigrant rather than a “real American,” that is hardly a disaster because there is an abundance of job opportunities.

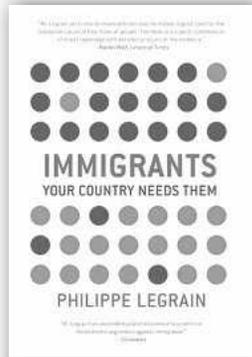
Putting aside the matter of employment, what about assimilation? We often

hear complaints that today’s immigrants are not like the immigrants of a century ago. Those immigrants were all good because they were eager to assimilate, goes the argument, but the immigrants today want to keep their own language and customs. The anti-immigration crowd thinks that is a crushing argument. Legrain blows it to pieces.

First, he points out, the same gripe was aimed at immigrants a century ago. The Italians, Greeks, Poles, and others often flocked together and continued speaking the old language, kept up their old-world religion and traditions, and many were content to have little to do with “mainstream” America. The second generation, however, was usually eager to mix in with the rest of the population and the third generation was as “American” as the descendants of the Pilgrims. Much the same thing is occurring with current immigrants, no matter where they are from.

More significantly, though, what harm does it do if people prefer to keep to themselves and follow their traditional ways? Who is harmed if some immigrant group chooses not to assimilate, Legrain asks. Good point. Consider one immigrant group that through many generations has steadfastly refused to integrate into American society, does not speak English as a first language, has large families, and lives largely unto themselves: the Amish. They are no threat to “our” culture and neither are new immigrants today.

Several chapters are devoted to a counter-attack against the many writers and commentators who make headlines and get wild applause for their claims that the “invasion” of immigrants puts America in peril. One of Legrain’s targets is Peter Brimelow, who writes in his book *Alien Nation* that “a nation is in a real sense an extended family.” If that is true, then we had better be careful not to admit any “undesirables” into the family, rather as Jewish parents might be aghast at their daughter’s intention to marry an evangelical Christian. Legrain points out that the family analogy is not appropriate. “This idea of nations as extended families, or modern-day tribes, is widespread — but except perhaps for Icelanders, it is nonsense,” he retorts. Nations are conglomerations of individuals who may have little in common except that they have to



pay taxes to the same government. The people of most nations are already very diverse in culture and beliefs and some additional dollops of difference cannot hurt anyone.

What about the possibility of terrorism? Unless we find ways to “secure the border,” won’t terrorists exploit that weakness and send in people intent on killing everyone who does not accept their beliefs? Legrain replies that instead of trying to use immigration restrictions to keep terrorists out — which probably will not work anyway, given the resources and determination of the terrorists — we should rely on better intelligence work and international cooperation to identify potential terrorists. That makes sense. The enormous resources devoted to the attempt to keep out all immigrants (a group that may contain no terrorists at all) would be better devoted to efforts directed specifically at terrorism.

Another argument employed by immigration opponents is that immigrants will overwhelm our welfare system. Milton Friedman famously stated that you can-

not have a welfare system and also have open immigration, but Legrain argues that even with a welfare system, open immigration is still the best policy. For one thing, few immigrants are interested in living off welfare. Lazy people who are content with a static life of subsidized poverty seldom are the ones who go to the trouble, risk, and expense of immigrating. True, there could be some who, after arriving in the United States, will rely on publicly funded services (especially medical care), but on the whole, Legrain contends, we are still well ahead if we allow free immigration rather than going to the huge expense (something the immigration opponents ignore) of trying to prevent it. He adds that we could make newcomers ineligible for public welfare for a period of years after immigrating.

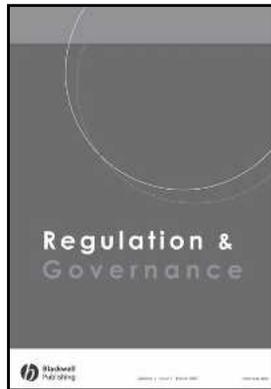
One of Legrain’s most compelling points is this: immigrants are a remarkably large source of foreign aid. Workers, legal and illegal, send billions back to their home countries — money that does not go to the dictator or ruling oligarchy, but rather straight to the people. The remit-

tances often comprise a large percentage of the incomes of poor families with members working elsewhere. They are a big source of funds for improved living and economic growth. So here is a deal for the people who worry about the cost of immigration: we let foreigners work here and cut foreign aid out of the federal budget. That would be a good deal.

The only part of the book to which I take exception is Legrain’s chapter on what countries should do to smooth the way for immigrants. He advocates more of a role for government than is necessary or appropriate. Instead of laissez-faire, he wants to make sure “that immigrants are full and equal members of society by tackling issues of racism, poverty and social inclusion with renewed vigor.” I’m afraid that the measures he has in mind, such as enforcing anti-discrimination laws, will only serve to focus attention on immigrants and arouse the bigots.

That quibble aside, Legrain’s *Immigrants* is an extraordinary book, making the best case I have ever read for an open-border policy. **R**

Call for Papers
New to Blackwell Publishing in 2007



Edited by:
John Braithwaite,
Cary Coglianese &
David Levi-Faur

Regulation & Governance

New in 2007, *Regulation & Governance* aims to serve as the leading platform for the study of regulation and governance by political scientists, lawyers, sociologists, criminologists, psychologists, anthropologists, economists and others.

Research on regulation and governance, once fragmented across various disciplines and subject areas, has emerged at the cutting edge of paradigmatic change in the social sciences. *Regulation & Governance* seeks to advance discussions between various disciplines about regulation and governance, promote the development of new theoretical and empirical understanding, and serve the growing needs of practitioners for a useful academic reference.

Regulation & Governance will reach an international audience. It will showcase research addressing the world’s most pressing audit and risk challenges, across all fields of regulation. It will address issues that transcend both intellectual and geographic boundaries and will report empirical results with broad implications. With guidance from an outstanding editorial board and carefully selected reviewers, *Regulation & Governance* will include significant new studies of regulatory governance, review articles on major lines of research in the field, and occasional shorter essays exploring new insights and directions for study.

For more information on *Regulation & Governance*, visit the journal homepage: www.blackwellpublishing.com/rego

For online submission via Manuscript Central™, visit <http://mc.manuscriptcentral.com/reggov>