

# BIBLICAL ECONOMICS TODAY

Vol. X, No. 6

© Institute for Christian Economics, 1987

Oct./Nov., 1987

## THE MORALS AND ECONOMICS OF LABOR UNIONS

by Francis E. Mahaffy<sup>1</sup>

The Ten Commandments given by Moses many centuries ago reveal the divine rule that covers man's relation to his God, to his fellow man, and to the things of God's creation. Ballvé has defined economics as "The study of human action directed toward the satisfaction of wants by the exercise of the power of choice."<sup>2</sup> Man's action and choices are made in concert with other men and stem from his deepest religious convictions. In other words, his view of God, whether that God be the personal Triune God of Christianity or another first principle or power that coordinates and directs the decision-maker's actions, will determine the direction of his economic activity. As Ludwig von Mises has well demonstrated, human action consists in a grading of our choices in a hierarchy of values.<sup>3</sup> The highest value or end to which all the rest of our choices are directed is our God. Thus, economics is rooted in ethics and is in reality an ethical science.

Since man is a social being, he tends naturally to work in conjunction with others in seeking the fulfillment of his desires. Ricardo and others have demonstrated clearly the great benefits that accrue to men from cooperation with each other in their labor. The less able tend to profit to a greater extent than the more capable and gifted from this cooperation.

It is natural that men of like interests should band together in unions of one kind or another. These associations of people of similar interests may be simply for fellowship, recreation, to increase their knowledge of a particular hobby, or it may be for the end of cooperation in securing certain goals by joint effort. Labor unions fall into the latter category. Labor unions represent men with common interests in the pursuit of certain economic goals. The activities of these unions are influenced by basic religious-ethical principles. It is, in fact, differences in these basic philosophical principles that undergird various unions that has led many Christians to refuse to unite with those whose philosophical presuppositions radically differ from theirs. Where union closed shops have been enforced by law, some have protested on religious grounds their right not to be represented by them. It is these fundamental principles, whether or not clearly articulated, that give the direction to the activity of the labor union.

The position of this paper is that the law given by Moses provides a succinct summary of the ethical norm that should

regulate the activity of unions. In fact, it is the position of the author that this divine law provides the norm for all man's activity. Two contemporary authors, Rousas J. Rushdoony and Greg Bahnsen, have elaborated extensively on this theme.<sup>4</sup> It is the position of this paper also that while there is a perfectly legitimate function of labor unions, a function to which men of diverse opinions may agree and in which they may cooperate, much of what labor unions do today violates the norm of Christian ethics. This ethical norm has historically, though followed with varying degrees of faithfulness, provided the basic norm for our western culture and civilization. Since it is of divine origin, its defiance is sure to reap the reward of God's judgment. For the laws of economics are as much the laws of God as the laws of physics. To defy either brings with it harmful consequences.

There is a proper function of the labor union. It can provide a useful source of information to the workers in regard to the free market price of their labor in other places. It can assist the workers in planning savings. It could well establish training and retraining schools for the workers and provide a clearing house for employment opportunities.<sup>5</sup> It might also serve as a liaison between management and the workers presenting recommendations on such things as working conditions, the amount of salary to be withheld for fringe benefits, etc. The union as a service organization for the benefit of its members could serve a much needed function.

While it is true that some of these functions are sometimes performed by unions, the main function of unions today is to raise the wages of its members. The means of accomplishing this is through violence or the threat of violence. The strike or the strike threat, which is essentially the same thing, is the weapon of unions to accomplish this purpose. So-called collective bargaining is not truly collective bargaining at all. True collective bargaining should include also the voice of job-seekers eager to enter the labor force but who have not been able yet to find the jobs they are looking for. Collective bargaining today is rather the "bargaining between an armed party, ready to use its weapons, and an unarmed party under duress."<sup>6</sup> It is not a matter of the right of voluntary association, to which no one should object, but rather the right of private citizens uniting to collectively use force, with this privilege given to them by the state. Such privilege is contrary to the principle of equal justice under the law set forth in our constitution and in the laws of our land. It is in direct conflict with the moral precepts which

1. The late Rev. Mahaffy, who served for decades as an Orthodox Presbyterian Church missionary to Eritrea, in Ethiopia, finished this article on December 22, 1978.

2. Faustino Ballvé, *Essentials of Economics* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1963), p. 9.

3. Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), pp. 201 ff.

4. R. J. Rushdoony, *The Institutes of Biblical Law* (Nutley, New Jersey: Craig Press, 1973); Greg L. Bahnsen, *Theonomy in Christian Ethics* (Nutley, New Jersey: Presbyterian & Reformed, 1977).

5. Sylvester Petro, *The Labor Policy of a Free Society* (New York: Ronald Press, 1957), pp. 107-8.

6. Mises, *Human Action*, p. 773.

have provided the foundation of all stable societies.

With only about twenty five percent of the work force in the U.S. unionized, an increase in their wages above the free market level (and did they not accomplish this, there would be no need for the union and no job for the union leader), for this portion of the labor force must be at the expense of other workers and consumers generally. This effect of the raising of wages by unions will be discussed later. Were it better understood, there might be less enthusiasm in the support of union activity. Yet without this popular support the unions could not survive in our society.

There are some who realize full well the fact that an imposition of a minimum wage by the unions for their workers or by the government in minimum wage laws can never improve the economic well-being of workers generally but must have the opposite effect. Thus consistent Marxists have opposed the effort of unions or government to impose minimum wage rates as detrimental to the interests of the whole working class. Other Marxists who are intent on transforming our society into the socialist camp vigorously support unions as an important means of destroying capitalism and ushering in communism. Once their end has been accomplished, however, history has shown that the labor unions are divested of any real power in the new society.

Others see unions as a means of improving the lot of the workers within the framework of capitalism. In Canada there is a labor union movement among Christians. While they generally oppose the open violence instigated by other labor unions, they are not adverse to the use of the strike or the strike threat to accomplish their ends. It is interesting to note in some prominent writers representing this group a hostility to capitalism as well as to socialism. They advocate a middle-road course which Von Mises has well described as the road that leads to socialism. They write of the need for a "just price" or wage. Poverty is stated to be caused by the prosperity of the rich; the gain of one is often the loss of another. While they may repudiate the communist ideal (it must always remain only an ideal) of equality, they advocate a "more equitable" distribution of the wealth on a world-wide scale. One writer presents the goal of the CLAC and advocates a society free from both poverty and riches.

CLAC (Christian Labor Association of Canada) must develop a comprehensive view of economics, industry, stewardship and human relations which not only takes issue with the idolatrous technocracy of the economically advanced nations, but which shows, by its very thesis, that there can indeed be healthy economic life without inflation, unemployment, greed, strife, monotony, poverty and riches, but with justice, freedom, harmony, joy and equity.<sup>7</sup>

The sentiment expressed by leading advocates of Christian labor unions in Canada is a fairly popular sentiment here also. Out of concern for the poor, along with a dearth of a knowledge of basic economics, empathy is generated for those who want to deprive large firms of some of their wealth to help those in need. It was Lyndon Johnson who expressed a popular sentiment when he said that we must take from those who have to give to those who lack and who need the income so badly.

The popular support of labor unions and their tactics is rooted in a false piety and in a faulty economics. In a conversation with a young man who recently got his doctorate in economics, I asked him if he were familiar with the writings of economists such as Hayek, von Mises, and Henry Hazlitt. He supported his negative reply by stating that he had studied only contemporary writers. A minister friend of mine once remarked to me that no one had a right to an annual

salary of \$70,000. I suggested to him that while the business executive might be earning seven times his salary as a pastor, that his \$10,000 was a far greater multiple of the average salary of an Ethiopian which at that time was less than \$60 annually. Another well-meaning minister friend once made the statement in regard to the need for charity that "We have a responsibility for the welfare of all men." Such expressions may sound like the pious expression of Christian concern for the poor but they can be no substitute for going down the block to mow the lawn or shovel the snow of the neighbor who is recovering from a heart attack. Schoeck has described "Distant love as an endeavour to escape from the practice of neighborly philanthropy."<sup>8</sup>

Contrary to this all-too-popular notion, it is the very prosperity of successful business enterprises that provides the life blood of a progressing and prosperous society. The consumer casts his vote of confidence in the entrepreneur who best meets his needs by buying his product or service. This same consumer may then vilify the very entrepreneur who has met his needs and received his vote in the market place. He may seek to divest him of his profits by supporting a powerful labor union whose aim is to deprive him of his profits to redistribute them to the laborers in the plant he manages. This redistribution can only serve to dry up the source of investment capital, endanger the continuation of the industry, cause unemployment, lower the wages of workers generally, and raise the prices for all consumers. Even a writer like Simons, who is certainly no advocate of free enterprise, has clearly described the peril of granting too much power to unions. He argues that the worthy desire to maximize aggregate labor income and to minimize inequality can not be attained by advocating greater power to labor unions. He says there is an identity of interest between the whole community and the enterprise which tries to keep costs down.<sup>9</sup>

The constant pressure of unions for higher than market wages in the industry they represent cannot accomplish a betterment of the condition of workers generally. It must, if it benefits at all, benefit only the few at the expense of the many. Often it fails to benefit even the members of the union. A student recently told me of a dairy in an eastern state that had over the years resisted unionization. Most of the other dairies were unionized and frequently were subject to long strikes by the unions. The non-union firm profited from the customers who turned to them at such times and also from the lack of conflict among the workers. The laborers in the non-union dairy were paid considerably higher wages than those in the union plants. They did not have to pay the huge cost of strikes, loss of business, and discontented workers, and so could prosper while the other firms, in a field where there was a constant attrition in the demand for milk delivery service due to the rise of supermarkets, were on the verge of bankruptcy. Back in the early thirties I worked for a couple of years in a hosiery mill in Minneapolis. A union came in and struck the plant. After seven months seeking substitute jobs in a depression economy and after much violence, the plant reopened and I returned to my job. The workers gained an increase in salary. I had lost seven months of employment at a wage that was higher than any other I could find, and thousands were willing, if it had been possible, to find employment in that mill. I left in a few months to continue the pursuit of a higher education but in less than a year that plant closed. Over 3,000 workers were out of work. Mortgaged cars and houses were taken over by the banks and many went on government welfare. The union members in this as in many cases did not profit from their efforts. For many years that large plant covering a square block of downtown Minneapolis, stood vacant as a witness to the short sighted policy of the hosiery workers union.

8. Helmut Schoeck, *Envy* (New York: Harcourt, Brace and World, Inc., 1970), p. 370.

9. Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), pp. 122 ff.

7. G. Vandezande, *Bunglers and Visionaries* (Toronto: Wedge, 1972), p. 36.

When the wage is raised by coercion to higher than the free market level, unemployment is almost certain to result. In the case of an expanding business the rate of that expansion will be retarded. Marginal producers will be the first to go. The workers who would be employed at lower wage are unable to produce sufficient to warrant their employment at a wage that necessitates a loss to the concern. These marginal workers are likely to be from minority groups, the handicapped and others who will find it especially difficult to find alternate employment. When these displaced workers enter the labor market competing for other jobs, the increase in the supply of labor effects a decrease in its price and so the wages of labor generally are retarded. Job seekers who would gladly have worked at the displaced workers' wages are deprived of the opportunity to seek employment there. The choice to them is narrowed and restricted usually to less remunerative jobs.

Minimum wage laws often prevent these displaced workers as well as others seeking jobs to find them. The minimum wage, imposed by the labor union or by the state has the effect of causing unemployment. This unemployment is especially severe among marginal producers with less skills than others. Those deprived of jobs are apt to be the most numerous among blacks and other minority groups. It seems strange that with all the propaganda supporting the right and privilege of minority groups, the very state that insists often on special privileges for them, by its minimum wage laws and laws that give monopoly power to the unions, deprives them of the basic privilege of finding work for which they are qualified and from which they could well advance to better skilled jobs. The state that expresses concern about the ghettos adopts a policy almost certain to retain and to augment the ghettos.

Thus unions tend to increase the poverty of the poor at the expense of the privileged few in union jobs. As Hutt states, "Union power, whether exercised through government or through the strike-threat, far from redistributing income from the rich to the poor has had exactly the opposite effect."<sup>10</sup> Or as Murray Rothbard has said, "Unions can achieve a restrictionist wage rate for its members only at the cost of lowering the wage rates of all other workers in the economy."<sup>11</sup> Since the union members tend to be in the more highly skilled and thus more highly paid jobs, we have the result as Hazlitt has pointed out, of the more highly paid group exploiting the majority of lower paid workers.<sup>12</sup>

Competition from areas where unions are less powerful and labor is thus cheaper is often hindered by government minimum wage laws. The unions support these laws because they help eliminate competition for their product. The South, an area of less unions and cheaper labor is adversely affected. Plants are prevented from moving into the area from the North because of the minimum wage laws. The plants already there are still forced to pay wages that may prevent them from competing with the plants in the North. Depressed areas tend to remain depressed and heavily industrialized areas to become more depressed. Unemployed or poorly paid workers in the South who moved to the North in search for higher paid jobs are excluded from competition in the labor market by union wage policies and thus often become a welfare burden to others.<sup>13</sup>

Consumers, who are often workers also, are hurt by union pressure for higher wages. Back in the last century W. Stanley Jevons stated this fact well in a speech he gave to a labor

union. "The attempt to regulate wages is injurious to the workmen immediately concerned in the majority of cases, and in all cases it is thoroughly injurious to the welfare of the community."<sup>14</sup>

The increased cost of production which results from the increased cost of labor, the factor that consumes on the average over 85% of the cost of production, brings about a rise in the cost of the product. Eventually it is the consumer who pays this bill in the higher cost of consumer goods. Strange that the consumer who suffers most from the union activity often gives strong support to the union.

The investors in business also stand to be harmed from union activity. It is true that the pressure of unions often restricts competition from other producers of the product. It may also force the company to automatize various parts of production to eliminate the higher labor cost. This automation will provide employment to the industry that makes the machines. It may thus cause a transfer of employment from one firm to another. The end result may prove profitable or it may not, depending on the marginal productivity of labor and of the machines. The higher wage may attract skilled and more efficient workers. The added cost is reflected in the higher price of the product and, with the restricted competition, less workers, and increase in machines may produce greater profits for the concern and prove beneficial to the investors. Higher costs, however, often prove disastrous to firms and force many into liquidation. Investors will transfer their investments into areas where there are lower costs and the company finds itself unable to expand as intended even if it is still able to survive.

While unions do not directly cause inflation, they provide a climate for the government to inflate the currency. Also the fact of inflation leads unions to demand increases in wages in order to compensate for the loss in real income due to inflation. It becomes a vicious cycle. As Milton Friedman said, "The problem is not that strong unions will produce inflation but that inflation will produce strong unions."<sup>15</sup> But this is only a part of the picture. Henry Hazlitt has pointed out that unions by the strike threat do not directly cause inflation.<sup>16</sup> The normal result would be to wipe out the profit margin of the threatened company and to cause unemployment. However, because of the Keynesian economic theories so widely held, the monetary authorities deem it their duty to issue more money to make the payment of the higher wages possible and payable. The illusion is fostered that the unions raise the real wage rates while in reality they may be only raising the dollar rate which is consumed in the higher prices resulting from inflation and in the higher tax brackets to which they propel the worker. Labor's total income is reduced even if the local union manages to secure a raise which more than compensates for the consequent inflation and higher taxes.

There are many other aspects of labor union activities beside the strike threat which are aimed at achieving higher wages for the work performed. These augment the cost of production and thus lower the standard of living for people generally, workers included. Work slowdowns, the insistence of a minute division of labor, the advocating of promotion on the basis of seniority instead of merit, opposition to machinery and more efficient methods of production, are some examples of union activities that bring economic harm and are morally defective.

The unions' practice of restricting entry to the unions does harm to those seeking jobs for which they may be qualified. While a student in college I paid for my education for two

10. W. H. Hutt, *Individual Freedom: Selected Works of William H. Hutt* (Westport, Conn. & London: Greenwood Press, 1975), p. 93.

11. Murray Rothbard, *Man, Economy, and State*, 2 vols. (Princeton, New Jersey: Van Nostrand, 1962), II, pp. 622-23.

12. Henry Hazlitt, *The Conquest of Poverty* (New Rochelle, New York: Arlington House, 1973), p. 134.

13. Gary North, "A Christian View of Labor Unions," *The Freeman* (July 1978).

14. W. Stanley Jevons, *Methods of Social Reform* (London: Macmillan, 1883), p. 110.

15. Milton Friedman, "Some Comments on the Significance of Labor Unions for Economic Policy," in *The Structure of the Labor Market* (Washington, D.C.: American University, 1950), p. 231.

16. Hazlitt, *Conquest of Poverty*, p. 140.

years by washing windows at the college. One summer, feeling qualified for the job, and eager to earn funds to finance my last year in college from summer employment, I inquired about the availability of employment washing windows on some of Chicago's skyscrapers. I was told that it was necessary to join the union and in order to do so it would cost a fee of \$1,000. That obviously eliminated me from a well-remunerated job and forced me to seek work elsewhere at a lower wage rate.

Unions, perhaps because they are blinded by the power they wield, base their practice on a faulty economics. They often fail to see the purpose of profits in attracting capital to the industry which is threatened. Their efforts to eliminate or to reduce these profits are self-defeating. They do not and cannot raise the wages of workers generally but at best only of some at the expense of all. Unions prosper in an economy that is prospering. Where unions become too powerful they are certain to dampen that prosperity. Where power is transferred to unions from the government, Simons argues that the result will be destruction of the government.

Finally, and most important for the future, it [the government] must guard its powers against great trade-unions, both as pressure groups in government and as monopolists outside. . . . [L]abor monopolies and labor "states" may readily become a problem which democracy simply cannot solve at all. There must be effective limitations upon their powers; 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. . . .<sup>17</sup>

The economics of labor unions are defective precisely because their principles and practices are morally defective. The tenth commandment in the law of Moses states, "Thou shalt not covet." Schoeck has pointed out that envy lies at the root of much of the continuing poverty in the world. In Ethiopia, where a communist coup overthrew the reign of Emperor Haile Selassie, new laws made it a crime to hoard goods or to possess more than others. A merchant in Asmara was executed, according to reports, for the crime of hoarding. Bicycles were forbidden because not everyone could afford one. Missionary children dared not ride their

bikes even in their own back yards for fear of being shot at by an Ethiopian soldier. Envy does not concern itself always with the betterment of one's own condition but often with harm to the one who possesses more than we have. It is envy of the wealth of successful entrepreneurs that leads members of unions to seek to confiscate a part of that wealth for themselves and if that is not possible, to destroy the wealth of the prosperous. This is a far cry from the ethics of Christianity or of the principles of equal justice on which our constitution and the laws of our land were based.

Labor unions as they function today are to be condemned because of their immoral use of violence or the threat of violence, which is the same thing, to accomplish their ends. Were their end a moral one, moral means should be used to accomplish it. Violence, in society may properly be used only in self-defense. The state has been given the power of the sword for the purpose of the restraint of evil (Romans 13:1-5). Where this power is transferred to a group that is given great power by the state, not only is the state in great danger of destroying itself, but it is denying itself an authority delegated to it by God.

Labor unions are defective because they have been built upon the patent falsehood that their activity tends to the betterment of people generally. As a matter of fact it has exactly the opposite effect. Falsehoods can never be condoned in a society whether by individuals, corporate leaders, unions, or government. A society that condones untruth will destroy itself.

The strength of labor unions is rooted also in the disrespect they evidence for the property of others. The very idea of the strike or its threat constitutes a denial of the right of the company to its property. It denies the right of job seekers, whether presently employed or seeking entrance to that employment, free access to the job opportunities. It is theft of their right to seek the most profitable use of their time and talents open to them.

Our society is built upon respect for property and for the word of others. In Africa where I worked for twenty three years business often stagnated because of government disrespect for property and also because the society there lacked the mutual trust so necessary to progress. In the U.S. a common laborer may get on the phone and order the purchase or sale of a hundred shares of stock. General Motors can phone Pittsburgh and a train load of steel will be shipped immediately. Mutual trust without cash on the line makes the expedition of business and of our lives possible. Where this trust and respect for property and for the truth is eroded as it is being done by labor unions and in our society generally today, the certain consequence is chaos and poverty. As God's Word says, "Be sure your sin will find you out" (Numbers 32:23). To restore our society on the path it once trod we must return to sound morals and to sound economics. And sound economics is sound morals. Labor unions is one obvious place to begin.

17. Simons, *Economic Policy*, pp. 126-27.

**Biblical Economics Today** is published six times a year, alternating with **Christian Reconstruction**. It is published by the Institute for Christian Economics, a non-profit, tax-exempt educational organization. A free six month subscription is sent to those who ask to be put on the mailing list. **Subscriptions:** P.O. Box 8000, Tyler, TX 75711. All donations are fully tax-deductible; checks should be made out to **Institute for Christian Economics**.