

## Apocalypse? No

*1980s Unemployment and the Unions*

by **F.A. Hayek**, Institute of Economic Affairs, London £1.50

*QUESTION: Which crackpot protectionist demagogue was responsible for the following piece of claptrap?*

"When one watches how even Japan is now being beaten in ever more fields by South Korea and other newcomers ... one cannot but shudder when one asks how in a few years' time Britain is to get the food to feed her people".

*QUESTION: Which ignorant Tory union-basher emitted the following soon-to-be refuted prophecy?*

". . . so long as general opinion makes it politically impossible to deprive the trade unions of their coercive powers, an economic recovery of Great Britain is also impossible".

I regret to say that the correct answer is: no protectionist demagogue and no Tory politician, but a writer regarded in many quarters as an eminent free market economist, F.A.Hayek.

If there could be any doubts about the foolishness of these two utterances, let us briefly dispose of them. It is the most elementary principle of the theory of specialisation and trade that even the less efficient will be able to trade with the more efficient, to the benefit of both. Surprising though this is to common sense, it can be strictly demonstrated, and easily exemplified in numerous practical instances. Even residents of a hypothetical country which was the least efficient producer of every commodity would still find trading partners in other countries, who would benefit from that country's specialisation in those areas where it enjoyed a comparative advantage.

But Britain is by no means composed of individuals all of whom are the worst in the world at everything. There are areas like banking, insurance, publishing, pop music,

electronics, engineering and information processing, where individuals who happen to reside within the United Kingdom continue to display some ability. Also, as a one-time student (if never disciple) of Ludwig von Mises should not have forgotten, there are the "thousands of unknown men" who can create entirely new industries, whose nature no one can specify in advance, in a short period of time. There will be no starvation. The people will continue to be fed, as they are now, not by "Britain", but by their own productive achievements.

Not only is Hayek's view of the South Korean Peril demonstrably silly, and doomed to be exploded by the course of events during the next few years, but he actually talks about one country "being beaten" by another in international trade. He portrays trade as a zero-sum game with winners and losers! The most tenacious and dangerous economic fallacy of them all, which we (and even Hayek, in his day) have had to struggle daily patiently to extirpate from the public mind, is here given a resounding commendation by this Nobel Prize-winning 'free market' economist.

As for the second quotation, nothing is more certain than that the trade unions will not be deprived of what Hayek believes to be their "coercive powers" within the next ten years. Equally, nothing is more certain than that Britain will see an economic recovery within the next ten years. Far from the conjunction of these two events being "impossible", it is just about inescapable.

The present government's attacks on the unions certainly do not amount to what Hayek regards as the stripping of their coercive powers, though these attacks are a serious threat to liberty. The Tories love to prattle about free trade unions in Poland while they are commencing' to turn the substantially free British unions into organs of the state.

### The End is not Nigh

Hayek's view of society is like Reverend Jonathan Edwards' view of the sinner, walking across an eggshell-thin surface

which at any moment may crack, plunging him into the abyss of Hellfire beneath. He speaks the language of death, judgement and possible (if unlikely) salvation. It is Hayek's belief that civilisation has managed to survive until he came along only because people didn't think too much about it. Now they have started to give it some thought and to mess around with it, and it will probably all go up in flames unless everybody listens to Hayek and does exactly what he says.

Once you start looking, it is easy to find ways in which society is in danger of destruction. All sorts of trends extrapolated will place us in mortal danger. Hayek magnifies marginal differences into qualitative distinctions and telescopes into a few years scenarios which would require generations to work out.

After *The Road to Serfdom* appeared in 1944, it was widely criticised as contending that the establishment of a social-democratic regime would immediately produce totalitarianism. I have often defended that work, and works by Mises, against such a misinterpretation. What these works really said was that in pursuit of social-democratic policies, certain principles were appealed to, and these principles, if remorselessly and rigorously implemented, would lead to totalitarianism, and indeed to the 'collapse of civilised society', in the sense of the disappearance of a complex social order founded on specialisation, which permits the maintenance of a population larger than that of the Dark Ages.

But there was never any chance that social-democratic principles would be remorselessly and rigorously implemented.

They were modified by vestiges of liberalism. The first ventures immediately encountered unsuspected problems, which led to modification and greater caution, which in turn created the sort of climate where *The Road to Serfdom* could become a best-seller. Various interest-groups obstructed full implementation: more than once the trade unions have successfully defended the market against "prices and incomes policies".

Now Hayek commits the crime for which he was once unjustly pilloried. He observes that unions create a bit of stickiness in the labour market, and concludes that unions are the outstanding cause of unemployment. He notices that if incomes policies actually followed the wild rhetoric which occasionally used to accompany them, it would follow that the market could not survive, and decides that incomes policies constitute the instant abolition of the market. He sees a couple of years of falling living standards in Britain, and concludes that nothing can stop wholesale starvation at the hands of the South Koreans except the effective outlawing of the unions. He notices that putting the brakes on inflation evokes a few squeals, and concludes that no government could stay in office if it attempted gradually to reduce inflation to zero.

The theory that society is in imminent danger of collapse is very appealing to a certain kind of mentality, but there is no evidence for it. Or, to look at it another way, there always has been plenty of evidence for it. Taking each fifty-year period in comparison with its predecessor, the population of these islands has enjoyed a continuously improving standard of life for centuries past, and will no doubt continue to do so for centuries to come, regardless of trade union legislation. The "decline of Britain" is purely relative. Britain has been improving rapidly and some other countries have been improving with extraordinary rapidity - that is the sober truth of the matter. The more productive and wealthier people are in Japan, South Korea and Taiwan, the better it is for people in Britain. A functioning market has never ceased to exist in Britain (or, for that matter, Russia since 1921) and certainly could never do so because of unions or incomes policies. It is one thing to construct a simplified model, for the sake of illustration, in which civilisation, or even society, cannot survive. It is quite another to talk as if civilisation were in actual danger of destruction. Civilisation is like weeds. It sprouts up everywhere once population density is high enough, and is just about impossible to wipe out. Writing a pamphlet to save civilisation is like giving the ground a kick to make sure the Earth keeps moving through space. Civilisation could be destroyed by a new Ice

Age. It could conceivably be destroyed by a worldwide chemical-biological-nuclear war. But Arthur Scargill?

### **Cold Turkey**

Hayek is insistent that a "slow cure" for inflation is not politically feasible:

"Even 20 per cent unemployment would probably be borne for six months if there existed confidence that it would be over at the end of such a period. But I doubt whether any government could persist for two or three years in a policy that meant 10 per cent unemployment for most of that period" (23).

Hayek's scepticism that any democratic government could survive 12-18 months of ten per cent unemployment is unwarranted. It is like the thinking of the Bolshevik sects in that it overrates the part played by "experience" in forming people's political attitudes, and underrates the part played by "theory". People do not vote by reflex. If they are not so foolish as to blame the incumbents for the whole of current unemployment, there is no guarantee that they will vote against the incumbents. Furthermore, even with 10 or 15 per cent unemployment, most people are little affected by it, and many of those who are would be voters against the current office-holders in any case. So the actual shift in votes might be slight, even on a Pavlovian theory of voting.

The predictions of Galbraith and others that "monetarism" could be imposed only in a dictatorship like Pinochet's, and not in a democracy, could easily turn out to be the reverse of what happens. Democracy would not have much future if it could not permit a policy of mild slump now in order to prevent worse slump later, but democracy has shown unexpectedly and repeatedly that it is a more efficient and resilient form of government than dictatorship.

Fears or hopes about popular reactions to drawn-out disinflation recall the 1930s expectations of how civilian populations would respond to saturation bombing of the sort which Churchill inflicted on the Germans and Johnson on the Vietnamese. It might have been expected that the Germans

or the Vietnamese would be reduced to a mindless rabble, would be in constant panic or hysteria, preventing the complexities of modern life from being sustained, or would even turn on their own governments. In fact, things happened otherwise. What goes for bombing goes for monetarism. The people can take it; they've got guts.

Many doomsters, some of them libertarians, have talked as if any inflation leads on by some inexorable process to hyperinflation, after which we all dig our cross-bows and gold coins out of the back yard and proceed with the hard business of post-civilisation "survival", closely following such exemplars as Yul Brynner (*The Ultimate Warrior*) or Charlton Heston (*The Omega Man*). I have been told that something like this is described in J.Neil Shulman's novel *Alongside Night*, a book I could not bring myself to read after I had glanced at the preface and noticed the author employing "critique" as a verb.

In the first place, even a hyperinflationary collapse would be followed by a recovery. Such catastrophes can leave remarkably few scars. The Germans were scrabbling around in the rubble, eating rats, at the end of the war, but they look very well on it now. A collapse due to hyperinflation, terrible though it would be, would be temporary. Twenty years later, with a new currency, output would probably surpass pre-collapse levels.

Secondly, even prolonged double-digit inflation does not necessarily lead to hyperinflation. Hayek cannot quite make up his mind whether indefinite 10 per cent inflation would be impossible because bound to culminate in hyperinflation, or would be just as bad as hyperinflation because of the misallocations induced. His turns of phrase alternately imply both views, but he ducks them by relying on his political judgment that any government which tolerated moderate inflation would be unable to stop there:

"Those who advocate, or even are merely prepared to tolerate, mild inflation are inevitably driven to support more and more inflation. Nor is anything gained by merely reducing inflation to a 'reasonable' rate.

Inflation must be stopped dead, because the trouble about it is precisely that its stimulating effect can be preserved only by accelerating it. Once a given rate of inflation is generally expected, it no longer stimulates but only continues to preserve some of the misdirections of efforts it has caused" (23).

It is true that inflation has a stimulating effect because it takes people by surprise. A 10 per cent annual inflation would not be stimulating, once everyone had thoroughly adjusted their expectations to it. To get the same short-term stimulating effects obtainable by creating 10 per cent inflation in a society adjusted to price stability, one would presumably have to increase the inflation rate from 10 to 21 per cent. But in Britain there have been several downward dips in the rate of inflation. The extreme Heath-Barber inflation was undone by the Wilson government, without a major slump.

Suppose that there were an inflation rate of 10 per cent year after year. It is true that this would impose numerous irksome burdens, such as the need to index all contracts and to keep on modifying slot machines. It would also be pointless, since nothing would be gained for anyone that could not equally be attained at 0 per cent. But there is no reason to doubt that society could go on indefinitely at 10 per cent. There would be no in-built tendency for inflation to accelerate. Hayek's conjecture that any government which tolerated 10 per cent would be bound to go for more rests on the assumption that politicians' motives are pure. It is conceivable that public animosity towards inflation might forbid going above 10 per cent, and that politicians might not like to incur the costs of going to 0 per cent.

Hayek presumably relies on some such analysis as he presented in *Prices and Production* (1931), though he has sometimes hinted that this might not be applicable today. But no adequate reply has been given to Hicks's criticism ("The Hayek Story") and it is difficult to square the analysis with what has gone on since the war. *Prices and Production* suggests that monetary growth causes real misallocations, and these are the fundamental errors uncovered by the slump. But in that case the slump would have to come very soon regardless of monetary

manipulation - if the slump were a matter of investments unsustainable because of incongruities in the real structure. And reversion to a constant rate of inflation, 10 or even 20 percent, would be just as conclusive an end to the boom as reversion to 0 per cent. Probably Hayek is exactly wrong: a gradual winding down of inflation is politically palatable, but the cold turkey he proposes would be impossible to swallow without a prior transformation of public opinion. Hayek acknowledges that there would be an "immense problem of public finance in being suddenly deprived of the means for covering a budget deficit". His quick cure, for all its severity, does not apparently include a sudden slaughter of government spending. But we must bite the bullet because his stabilisation-crisis is (Oh dear) "the last chance of avoiding a final collapse of the British economy" (24).

None of this is said to belittle the menace of inflation. But we should not make our position ridiculous by suggesting that everything we don't like will lead to the end of the world.

### **The End of the Market?**

Hayek repeatedly asserts that either trade union power or an incomes policy means the abolition of the price system, and that Britain is without a market economy. Incomes policy "completely suspends" the "steering function of the market" (22), Britain "no longer has an internal price structure to guide the economic use of resources" (54) and "a functioning market and trade unions with coercive power cannot co-exist" (55). Hayek is in no doubt that the unions possess coercive powers.

The speck of truth amid these sloppy, sweeping statements is that a market in the usual sense requires some freedom for the terms of transactions to be varied by the mutual agreement of each pair of transactors, which usually means their liberty to agree upon a price. A central authority which took upon itself the task of fixing all prices would have to fix all quantities, so that it would be practising central planning, which is an impossibility, as Mises, Hayek, Polanyi and Roberts have correctly argued.

Functioning markets have rarely if ever been entirely free markets, and have generally persisted despite some price-fixing. Whether we are looking at the effects of unions or incomes policies (and Hayek never displays any gratitude to the former for saving us from the latter), we should note that: 1) not all prices are fixed; 2) where some prices are fixed, the "fixed" price can be changed by the authority's recognition of market forces; 3) illegal deals go on at prices different to those decreed; and 4) quality adjustments and other subterfuges may escape the intention of the law. Under British incomes policies it was quite easy for employers to reclassify workers, giving them rather insubstantial extra responsibilities, if it was required to pay them more than the policy permitted.

In practice government incomes policies have generally delayed some price movements. This is certainly sabotage of the system of social co-operation, but it does not paralyse the market completely. Trade union action is even more absurd as a candidate for abolition of the market. In Britain, a large number of workers are not in unions, and many unions make negligible if any difference to wage rates.

In the past 20 years computer staff have sometimes gained considerable pay rises. If there had been a union, these rises would have been attributed to the union's efficacy. Some of the gains apparently achieved by all unions, and most of the gains apparently made by some, are due to increased demand for those types of labour, though the unions are not reluctant to take the credit.

Where unions do have an impact on wages, they increase the wage rates in some firms, industries or occupations, and decrease the number employed there. Their "power" makes their members' wages higher, whilst reducing the wages of other workers. If there is an increase in their power they may make their members' wages even higher, but no stable amount of power gives a union the capacity to continuously increase the gap between what its members' wages are and what they would be without the union. There has been much loose talk, as if unions could make wages whatever they liked, and then force the government to print the money to

cover these wages. But this is fantasy. Why aren't wages in the most powerfully unionised areas 20 times what they are? Unions often fail to get what they want by negotiation, and when they strike they are often defeated. This does not include the times when they decide not to strike because they know they would be defeated.

It is true that unions often take their "monopoly wages" in the form of an easier time at work, rather than money. But if some union members are too dim to perceive that the comparatively easy time is an alternative form of wages, and they could have the money instead, managements generally bring this to their attention by "productivity deals", buying back bits of specialised management direction because this enables a larger output to be produced and therefore higher money wages to be paid.

The unions' position is continually being undermined by the emergence of new firms and new industries where unions have no established role, and it is conspicuous that the great majority of Britain's worst union problems" appear in state-controlled industries. Much of the union problem is a nationalisation problem.

"There can be no salvation for Britain until the special privileges granted to the trade unions three-quarters of a century ago are revoked" (58). The unions' legal privileges are "the chief cause of unemployment" (55). How seriously can we take these remarkable claims?

Unions raise wages for their members and reduce wages for other workers. Given lavish social security benefits, which prompt low-paid workers rationally to become unemployed, and given minimum wages, which exist for many industries in fact though not in name, through the "wages councils", a fall in the wages of most workers (those not in unions and those whose unions are comparatively ineffective) will increase unemployment. In this sense unions will increase unemployment, just as, for instance, a greater preference for leisure will increase unemployment. Hayek does not mention wages councils, and supports the continuation of state welfare benefits. I agree that penalising unions, like penalising

leisure-time activities, will reduce unemployment. That does not justify penalising unions. I believe that unemployment in Britain could be solved as a serious problem within six months, by abolishing all state welfare payments and all nationalised enterprises.

Leaving aside my always fallible judgement, just look at the facts. Hayek is not talking about recent union legislation, such as *Unfair Dismissals*, which any libertarian would agree should be scrapped at once. He is talking about 1906. Hayek is saying that the chief cause of unemployment in the last few years is the 1906 Trade Disputes Act. The recent rise in unemployment followed 20 years of almost unbelievably low unemployment (Keynes believed unemployment could never go below four per cent) during which time the 1906 Act was in force. And the recent rise of unemployment in Britain coincided with a worldwide rise, affecting countries where unions were far less influential, countries where anything like the privileges of 1906 was absent, and countries where unions were outlawed.

It seems clear that the recent rise in unemployment in Britain is not primarily due to union power, though it is not to be disputed that a diminishment of union power would reduce unemployment. The rise is due partly to the long-term increase in state welfare payments to the unemployed, partly to the temporary effects of applying the monetary brakes, albeit gingerly, and partly to the world slump. To the extent that unions may have contributed slightly to the recent rise in unemployment, it would be due to 1971, 1974 and 1976 - not 1906.

### **Trade Unions and Justice**

Hayek has a curious view of the relation between morality and the market. He seems to think that the survival and flourishing of the social group is the only court of appeal in ethics and jurisprudence. Whilst I agree that compatibility with social survival and to some extent prosperity is a necessary qualification for any ethical or legal system, this does not rule out the possibility that some moral or legal issues could be determined by irreducible notions of fairness.

Hayek seems to hold both that prices can never be just, and that morality requires that we strive for monetary gain. The fact that prices can never be just in the sense that we could construct a table of indicated prices does not eliminate a different criterion of "just price": any price agreed upon by two contractors who are entitled to the properties they are exchanging. From the fact that some element of monetary gain-seeking is necessary for the market to work, and therefore for the maintenance of dense populations at high living standards, it by no means follows that pursuit of monetary gain is morally superior to other kinds of motivation.

The facts that trade unions increase unemployment, and that they lower productivity and real incomes, do not show that unions are bad or ought to be restricted. It would undoubtedly reduce unemployment to put unemployed people in jail as "parasitic elements", as occurs in the Soviet Union, but it would be unjust.

One is not morally obliged to do that which will enhance aggregate income. Although part of the case for freedom is that it conduces to prosperity, freedom requires the right to do many things which are not as conducive to social prosperity as other choices which might have been made. Someone who gets a part-time job and spends most of his time practising the guitar, when he could be working flat out 14 hours a day in business, is making a choice which will probably result in lower measurable output (assuming he does not become another Julian Bream). His choice makes us all worse off, but he is entitled to do it.

The British trade union movement is not being attacked because it is over-powerful, but because it is weaker than it used to be. It was essentially a set of rituals which gave meaning and dignity to many people's lives, a triumphant product of the free market, enabling workers to cope more easily with the strains of transition to an industrial society. It always aroused envy and spite from those workers who were never part of it, especially bigoted sections of the lower middle class, affronted at the unseemly spectacle of some manual labourers taking

home more money than some educated professional men.

Trade unionism can be seen as analogous to a religion, with detailed restrictions which lead to lower measurable income, as does for example the observance of a Sabbath. But the religion does provide its devotees with utility. British workers have preferred trade unionism to bigger houses, better health, more elegant cars and longer leisure. They have sacrificed these things to trade unionism. Japanese workers have, for the time being, made the alternative choice. Workers are entitled to manifest these preferences, just as they are entitled to prefer football to ballet, or vice versa. Liberty is not confined to money-making.

Hayek makes many references to unions' "coercion", "force" and "threat of violence". Like others who have picked up the habit of speaking this way, he does not often specify what he means. But it is possible to identify his views from this pamphlet. He thinks that "all the most harmful practices of British trade unions derive from their being allowed forcefully [sic] to prevent outsiders from offering their services to the public on their own terms. The chief instances of such legal powers are intimidatory picketing, preventing non-members from doing particular kinds of jobs such as 'demarcation' rules, and the closed shop. Yet all these restrictive practices are prohibited in most of the more prosperous Western countries" (53).

Of these three, the second and third belong together. The first is rather different. The law in Britain does not permit, and never has permitted, picketers to commit violence against strike-breakers, or to threaten violence against them. One might suggest that violence does sometimes occur on picket lines, but this is rather like saying that there have been a lot of burglaries in our street recently. Hayek is not discussing the efficiency with which the existing law is enforced, but demanding changes in the law. A picketer who attacks a strike-breaker, or makes threatening gestures against a strike-breaker, or even "conspires" to do anything like this, is liable to be prosecuted, and in fact such prosecutions are often successful, and the punishments comparatively severe.

Police turn up at picket lines, in considerable force if necessary, protect those going to work and arrest any picketers who do anything violent. Picketers cannot enter the employing firms' property, and they cannot physically bar the way to those going to work.

In view of the loose talk which Hayek repeats, it must be emphasised that strikers in Britain never have had the right, in theory or practice, to stop anyone going to work who wants to. It has all along been the case, unequivocally and without the slightest qualification, that any employee who wants to work for an employer who wants to hire him, cannot be violently prevented from doing so. The "coercion of other workers who are deterred by the threat of violence from offering their labour on their own terms" (61) has never prevailed in Britain (with the exception of a handful of occupations, notably medicine and law).

*All* that the picketing privilege amounts to is that representatives of the strikers have the statutory right to stand on the public footpath and attempt peacefully to persuade the workers to turn back.

People with memories of the Grunwick crowds might object that the mere presence of hundreds of screaming Trotskyists is intimidating. However, the Grunwick case was exceptional in the scale of picketing, some picketers were arrested, the police already had the power to restrict the numbers present if they had so chosen, and no one was forcibly prevented from going to work. The strike was utterly defeated, as was inevitable with most of the workers strongly opposed to it.

Picketing is a privilege, because picketing by other organisations is forbidden. For example, if agents of the employers lined up outside union headquarters urging members to burn their union cards, the employers' representatives would be moved on by the police, if not arrested for obstruction. From a libertarian standpoint this issue is somewhat indeterminate, because it arises from state ownership of the streets. Once the streets and roads are denationalised, the owners can decide whether to permit picketing. No doubt they would mostly permit a token picket of

two or three mild-mannered persons handing out leaflets and wearing sandwich boards, just as they would permit flag days and Salvation Army parades. No doubt some would permit more than this if they were paid extra for it.

We could take the view that privatisation of the streets is the only solution, and that nothing can be said in the meantime. On the other hand, because so many public places are state-owned, any further limitation on freedom of assembly is dangerous. Yet it seems unfair to give trade unions a facility afforded to no other organisation. Whoever owns the streets must limit and restrict demonstrations in the streets. If unfortunately the government owns the streets, the government must restrict demonstrations. Government ownership carries with it the added burden that there has to be a uniform code applicable to all streets, or to streets divided by category. Private owners would vary in their policies. Under government ownership, the best compromise is a limited right of token demonstration by a handful of people in all non-residential streets, and a fuller right for larger numbers in public squares and wide thoroughfares.

Although picketing is a union privilege, it does not enable strikers to coerce other workers. It mainly relies for any persuasive force it may have on the fact that, a large proportion of workers possess a guilty conscience, activated by the disapproval of their work-mates, about "crossing a picket line". The decline of traditional working-class culture and growing awareness that union gains are made at the expense of other workers has eroded this conscience, the true foundation of union influence, and may be expected to erode it further.

Are the closed shop and demarcation agreements coercive? With a sudden, uncharacteristic onset of bleeding heart, Hayek wails that the unions "offer to a skilled worker only the choice between joining and starving" (61). Plenty of vibrato on the violins there. In fact, under a closed shop agreement, the employer offers job applicants the choice of joining the union or seeking work somewhere else, or, under present circumstances, living on the state welfare benefits which Hayek supports.

Hayek thinks it is quite all right, indeed laudable, for an employer to sack workers in pursuit of profit, but Hayek wants employers prevented by law from sacking workers for not joining a union, because the employer has entered into an entirely voluntary agreement with a union. In applying the label "coercion" to closed shops, Hayek is defining the coerciveness of an action by its goals, rather than its violent or threatening nature. His whole argument rests on the proposition that it is coercion to give someone the sack, a proposition which in other applications he would hotly repudiate.

An employer should be able to hire and fire workers for any reason which takes his fancy, subject to any contracts he may have made with them. It is not coercion for an employer to insist that his employees follow Islam, wear neckties, practise vegetarianism, buy an insurance policy or join a union. Equally, it is not coercion for an employer to insist that his employees do not follow Islam, wear neckties, practise vegetarianism, buy an insurance policy or join a union. Employers in Britain were essentially free between 1906 and the 1960s to do any of these things, and that is the liberal policy to which we should revert. Employees are equally free to discriminate among employers, to leave employers who do not follow certain policies, and to organise boycotts against them. It is Hayek, not the 1906 Act, who is making an *ad hoc* departure from liberal principles. The right to form a closed shop by voluntary agreement is merely an application of the liberal doctrine of freedom of contract.

## **Free Life**