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Hayek on Labor Unions: Economic and Social Consequences

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Abstract

While American unions have a low and declining market share, they remain very significant, especially in the political marketplace. That political influence makes it possible for unions to yield far more power in the private sector than their market share in that sector (7.5 percent) implies. All this is possible because of the substantial goodwill capital that unions still enjoy. F. A. Hayek thought that if people, including workers, understood the negative consequences of unionism, unions would lose most of that goodwill capital. Hayek wrote extensively on two categories of malign effects of unionism: those involving breach of the rule of law and those involving the economy and the free society. This paper examines his views on the latter.

I. Introduction

Many people, aware that only 7.5 percent of private sector American workers are unionized, conclude that, at least in the U.S., unions are largely irrelevant. That inference is very wrong. To begin with, 35.9 percent of government sector American workers are unionized. To a large extent collective bargaining in the government sector results in government employees imposing taxation-without-representation on the rest of us. (Wages and salaries paid to government workers are paid for out of taxes, and taxpayers don't get to vote on the provisions of collective bargaining agreements.) Moreover, despite the low, and falling, market share of private sector unions, their ability to extract forced dues from workers who want nothing to do with them gives them far too much influence in the political marketplace. This sorry state of affairs is made possible by the fact that unions enjoy far more goodwill among the public than they deserve. F. A. Hayek believed that if people, including unionized workers, came to understand the actual consequence of unionism as it emerged in Britain and the U.S., unions would lose much of their undeserved goodwill capital. He thought that to be a true friend to labor, one had to oppose coercive unionism.

The negative effects of unionism examined by F. A. Hayek fall into two broad categories: conflicts with the rule of law, and perverse economic and social effects. In a previous paper (Baird, 2007) I discussed the former. Here I turn to Hayek's views of the economic and social consequences of unionism and conclude with a brief discussion of Hayek's proposal to substitute profit sharing for collective bargaining in the determination of wage rates.

II. Economic Consequences

The damaging economic effects of coercive unionism examined by Hayek are of four types: unions disrupt and impair the coordination of economic activities through the competitive market process; they increase the extent and duration of unemployment; they cause inflation and exacerbate the business cycle; and they lower productivity, which results in lower standards of living for working people.

1. Discoordination of Economic Activities

Part II of *1980s Unemployment and the Unions* ([1980] 1984), is a clear and persuasive exposition of Hayek's long-held understanding of how markets achieve coordination of the diverse economic activities of all market participants without any central direction. Relative prices and relative wages, and their profit and loss implications, are central to that coordination process. In brief, within the context of voluntary exchange, all market participants attempt to do the best they can for themselves. They formulate production and exchange plans on the basis of the bid and ask prices they expect to encounter in the market. Each person formulates his own bid prices for those goods and services (including labor) he is interested in buying and his own ask prices for those goods and services (including labor) he is interested in selling. Each person also has expectations regarding the bid and ask prices of other market participants. As people attempt to carry out their plans, they will discover the extent to which their expectations and planned actions are consistent with what others are willing to do. Buyers who expected to encounter lower ask prices than they do will decide to buy less than they had planned. Buyers who expected to encounter higher ask prices than they do will decide to try to buy more than they had planned. Sellers who expected to encounter higher bid prices than they do will decide to sell less. Sellers who expected to encounter lower bid prices than they do will decide to try to sell more. All the while, market participants will adjust their own bid and ask prices to make them more consistent with newly discovered production and exchange opportunities. Gradually, as expectations come to correspond to reality, more and more coordination of production and exchange activities is achieved. Since market conditions are almost always changing, coordination is a moving target. Nevertheless, freely determined prices and wages move markets toward coordination, a state where the plans and actions of all market participants are mutually consistent. Note that no one has to have knowledge of the underlying reasons other market participants do what they do. All that is necessary is that prices are free to convey the implications of those actions. In Hayek's words:

> Each individual can rarely know the conditions which make it desirable, for him as well as for others, to do one thing rather than another, or to do it in one way or another. *It is only through the prices he finds in the market that he can learn what to do and how.* Only they, constantly and unmistakably, can inform him what goods and services he ought to produce in his own interest as well as the general interest of his community or country as a whole. The 'signal' which warns him that he must alter the direction or nature of his effort is frequently the discovery that he can no longer sell the fruits of his effort at prices which leave a surplus over costs. The signaling apparatus works as much for the employed worker as for the professional or business man....
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> For anyone earning his living in the market, which means most of us, the most valuable contribution he can make at any time will depend on thousands of continually changing conditions of which he can have no direct knowledge. It is nevertheless possible for him to make whatever decisions are most advantageous both to himself and the community at large because the open market conveys to him, through its prices, the information he requires to make the right decisions and choices. The prices are thus the indispensable signals that communicate to him the effects of events with

which he cannot himself be directly acquainted ([1980] 1984, p.28-29, emphasis in original).

Coercive unionism cripples this coordination process. Specifically, when above-market wage rates are imposed in unionized employments by the ability of unions, through coercion, to shut out competing workers, those wages will not tell the truth about the relative scarcity of workers who are able and willing to do the job. Too few workers will enter those employments. Instead, many workers who should be employed therein, based on what they can do and the willingness of consumers to pay employers to hire them to do it, will be diverted to lower valued uses of their abilities. This will depress wages in those employments, again resulting in prices that do not send the right signals to market participants. Relative wages and relative prices will be distorted. They will tend to discoordinate the economy rather than coordinate it. Hear Hayek on union-caused discoordination in Britain when it was considered the "sick man of Europe":

> The effect of the present system of wage determination in Britain is that the country no longer has an internal price structure to guide the economic use of resources. This is almost entirely due to the rigidity of politically determined wages. If it is no longer possible to know the most efficient use of the natural talents of the British people, it is because relative wages no longer reflect the relative scarcity of skills. Even their relative scarcity is no longer determined by objective facts about the real conditions of supply and demand, but by an artificial product of the arbitrary decisions of legally tolerated [labor] monopolies (p.54).

2. Unemployment

Hayek held that unemployment is always a pricing problem. It emerges when "there is a discrepancy between the distribution of labor (and the other factors of production) between industries (and localities) and the distribution of demand among their products" (1975, p.19). Given the pattern of consumer demands for goods and services, suppose there is an excess demand for labor where consumer demand for goods and services is strong and an excess supply of labor where consumer demand is not so strong. Ordinarily, this would result in higher wages in the former and lower wages in the latter. This pattern of relative wages would attract additional workers into the production of goods and services for which consumer demand is strong and induce some workers employed where consumer demand is less strong to leave those employments. The additional supply of workers seeking employment in the former will tend to lower wages there. The decreasing supply of labor in the latter will tend to increase wages there. The process continues until all labor is employed in accordance with the pattern of consumer demands. Higher consumer demand translates into additional production, and lower consumer demand translates into less production. Any discrepancy between the allocation of labor among employments and the pattern of consumer demands is gradually remedied by changing relative prices and wages.

The only way such a discrepancy can endure is if there is a "distortion of the system of *relative* prices and wages" (1975, p.19, emphasis in original). To the extent that the markets in which there is an excess demand for labor are unionized, additional workers are prevented from seeking employment there. The high wages become permanent. Thus, the high consumer demand is absorbed by the high wages rather than translated into additional production. If the markets in which there is an excess supply of labor are also unionized, the initial wage decrease will be prevented, so employers have no recourse but to lay off workers. The result: durable unemployment. If the markets with an excess supply of labor are not unionized, unemployment there can be avoided, but only by a substantial decline in wages. If declines of that magnitude are illegal because of minimum wage laws, or if, because of the welfare state, people would be paid more not to work than to work at such low wages, the result again is durable unemployment. Unions always support increases in legal minimum wages and higher unemployment benefits. In Hayek's words:

> The normal cause of recurrent waves of widespread unemployment is ... a discrepancy between the way in which demand is distributed between products and services, and the proportions in which resources are devoted to producing them. Unemployment is the result of divergent changes in the direction of demand and the techniques of production. If labour is not deployed according to demand for products,

there is unemployment ([1980] 1984, p.55).

> It is the continuous change of *relative* market prices and particularly wages which can alone bring about that steady adjustment of the proportions of the different efforts to the distribution of demand, and thus a steady flow of the stream of products. It is this incessant adaptation of relative wages to the ever-changing magnitudes, at which in each sector demand will equal supply, which the trade unions have set out to inhibit ((1980] 1984, p.18, emphasis in original).

> The reason why I believe that the licence to use coercion conceded to unions some 70 years ago [in Britain's 1906 Trades Disputes Act] should be withdrawn is precisely that their actions have become the chief cause of unemployment. [One way they do this] is the obvious one of an increased demand for some product being absorbed by an increase of the wages of the workers already employed in it rather than by an influx of additional workers, leaving out in the cold those in the industries from which demand has turned ([1978] 1984, p.62).

> The chief significance of the comprehensive systems of unemployment compensation…is that they operate in a labor market dominated by the coercive action of unions and that they have been designed under strong union influence with the aim of assisting unions in their wage policies…. Such a system, which relieves the unions of the responsibility for the unemployment that their policies create and which places on the state the burden not merely of maintaining but of keeping content those who are kept out of jobs by them, can in the long run only make the employment problem more acute (1960, p.302).

Hayek acknowledged another way in which union-imposed wage distortions cause unemployment. Excessive wage rates imposed by union duress will cause employers to change the capital-labor mix in ways that permit them to reduce labor costs while maintaining output. "At wages higher than those which would prevail in a free market, employers must, in order to be able to pay them, use the limited amount of capital that is available in a manner which will require fewer workers for a given output" ([1978], 1984, p.62).

3. Unions, Money, Inflation and Keynes

Hayek often cited a perverse de facto division of responsibility between monetary authorities and trade unions in Britain. The unions would arbitrarily set high money wage rates in key industries, and, because by itself this would result in extensive unemployment, the monetary authorities would inflate the money supply enough to raise money prices, which, in turn, would lower real wages sufficiently to avoid extensive unemployment.

> What we have achieved is a division of responsibilities under which one group can enforce a wage level without regard to the effects on employment, and another agency is responsible for providing whatever amount of money is needed to secure full employment at that wage level. So long as this is the accepted principle, it is true that the monetary authorities have no choice but to pursue a policy resulting in continuous inflation, however little they may like it. But the fact that in the existing state of opinion [the sanctity of unions] they cannot do anything else does not alter the fact that, as always, it is monetary policy and nothing else which is the cause of inflation ([1959] 1967, p.282).

The U.S. also experienced this phenomenon on a limited scale, especially in the 1970s, but unions here were much less pervasive than in Britain, so it was much less of a problem. Nevertheless, we had our own discussions of the extent to which this "cost-push" process could account for U.S. inflation. Most U.S. economists concurred with Hayek (and Friedman) that cost-push could not account for inflation in the absence of ratifying monetary policy.

Keynesian economics, of course, only strengthened the link between unions and the monetary authorities in causing inflation. Keynes always understood that unemployment was a result of real wages that were too high, but he simply assumed that money wages could not be reduced because of unions and other causes of wage "rigidities." His solution to the problem of unemployment was to increase aggregate money demand through expansionary monetary policy. Of course, this "solution" is possible only to the extent that workers underestimate the resulting inflation.

> The essential point is that it must be once more realized that the employment problem is a wage problem and the Keynesian device of lowering real wages by reducing the value of money when wages have become too high for full employment will work only so long as the workers let themselves be deceived by it. It was an attempt to get round what is called the 'rigidity' of wages which could work for a time but which in the long run has only made this obstacle to a stable monetary system greater than it had been. What is needed is that the responsibility for a wage level which is compatible with a high and stable level of employment should again be squarely placed where it belongs: with the trade unions ([1958] 1967, p.298).

> The final disaster we owe mainly to Lord Keynes. His erroneous conception that employment could be directly controlled by regulating aggregate demand through monetary policy shifted responsibility for employment from the trade unions to the government. This error relieved trade unions of the responsibility to adjust their wage demands so as to sell as much work as possible, and misrepresented full employment entirely as a function of government monetary policy. For 40 years it has thus made the price mechanism ineffective in the labour market by preventing wages from acting as a signal to workers and to employers. As a result there is divided responsibility: the trade unions are allowed to enforce their wage demands without regard to the effect on employment, and government is expected to create the demand at which the available supply of work can be sold at the prevailing (or even higher) wages. Inevitably the consequence is continuous and accelerating inflation ([1980] 1984, p. 57).[1]

However, Hayek did not recommend that this "disaster" be remedied by restrictive monetary policies. He thought such an effort would be far too dangerous: "A monetary policy that would break the

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[1] See also Hayek's "Full Employment, Planning and Inflation" ([1950] 1967, p.271-2).

coercive powers of the unions by producing extensive and protracted unemployment must be excluded, for it would be politically and socially fatal" (1960, p.281-2). The only solution, according to Hayek, is to remove the unions' privileges, to subject them to the rule of law. This would be difficult, but the unions would come to see that it is the least bad of their alternatives.

> [I]f we do not succeed in time in curbing union power at its source, the unions will soon be faced with a demand for measures that will be much more distasteful to the individual workers, if not the union leaders, than the submission of unions to the rule of law: the clamor will soon be either for the fixing of wages by government or for the complete abolition of the unions (1960, p. 282).

Of course Hayek would be opposed to either government wage setting or the complete abolition of (voluntary) unions. However, I think Hayek was, at least in 1960 when he wrote these words, too optimistic about the unions' distaste for government wage fixing. American, if not British, unions supported government interference in the 1970s through "incomes policies" and explicit wage fixing. During that period the unions had a lot of confidence in their ability to manipulate public policy in their interests. And the complete abolition of coercive unions was not then, and is not now, politically possible.

Hayek thought that Keynes' notion of "aggregate demand" was meaningless but dangerous. Thinking in such aggregate terms diverts attention away from what, as we saw above, was, in Hayek's mind, really important: the distribution of individual demands relative to individual supplies and relative prices.

> If the composition (or distribution) of the demand for the various products is very different from that of their supply, no magnitude of total demand will assure that the market is cleared. The wider the difference between the composition of the demand and that of the supply, the more the achievement of a correspondence between the whole of demand and the whole of supply can be brought about *only* by a change in the relative quantities, *and* this, in turn, only by a change in the relative prices of the different products and services,

including wages ([1980] 1984, p.16, emphasis in original).[2]

Moreover, trade unions exacerbate the difficulty.

> Aggregate demand may well exceed the aggregate price of all goods and services offered, yet this will not create full employment if in the sectors in which demand exceeds supply the already employed obstruct the entry of additional workers by claiming all the surplus as gains for themselves ([1980] 1984, p.17).

Finally, Hayek joined his critique of unionism with his monetary theory of the business cycle.[3] The basis for that theory is the role of relative prices (including wages) and interest rates in the coordination of economic activities. The introduction of newly created money and bank credit distorts relative prices sending incorrect signals to market participants who then misallocate resources. The new money does not change the underlying real supplies and demands, but makes it appear that some supplies and demands have changed. In particular, lower interest rates send the false signal that people want to consume less now and more in the future. In response, producers produce less for current consumption and instead undertake too many investments designed to yield consumer goods in the future. In the meantime, real demand for consumer goods doesn't decrease, and the spending boom part of the cycle gets underway. Eventually, unless money inflation is accelerated to keep ahead of expectations, real supply and demand conditions will become revealed, and a correction of the misdirections of resources will get underway. This is the bust part of the cycle.

What role do unions play in this story? When discussing unions, Hayek emphasized that wages are distorted by inflation, and so they will misdirect labor. When monetary authorities resort to inflation to avoid unemployment, the new money increases particular wage rates. "The artificial demand brought about by increasing the amount of money is simply misleading: it attracts workers into employments which cannot be maintained except by accelerating inflation" ([1980]

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[2] See also Hayek's *A Tiger by the Tail* (1972, p. 118).

[3] What is now called the Austrian theory of the trade cycle was first explicated by Ludwig von Mises in *The Theory of Money and Credit* (1912) and developed by Hayek (1928).

1984, p.21). Moreover, after Hayek had developed his trade cycle theory and had turned his attention to the union problem, he came to see that unions were the principal influence leading monetary authorities to inflate.

> [T]he most common cause [of unemployment] is that, because of excessive credit expansion, over-investment has been encouraged and too many resources have been drawn into the production of capital goods, where they can be employed only so long as the expansion continues or even accelerates. And credit is expanded to appease trade unions that fear their members will lose their jobs, even though it is they themselves who forced wages too high to enable the workers to find jobs at those excessive rates of pay ([1980] 1984, p.55-6).

4. Lower Productivity and Lower Standards of Living

According to Hayek, "It is a complete inversion of the truth to represent unions as improving the prospect of employment at high wages. They have become in Britain the chief cause of unemployment and the falling standard of living of the working class" ([1978] 1984, p.62). Misallocation of labor due to the unions' interference with the signaling functions of relative prices and wages reduces the productivity of the workforce by preventing labor from being allocated according to its more highly valued uses. Many workers are excluded from where they would be more productive and forced into employments where they are less productive, or they are excluded from any employment.

> It is the wages maintained by the closed shops whose barriers prevented the rest from earning as much as they might have done which keeps the productivity of the majority of British workers low. Once the opportunity to earn more in a particular trade becomes the exclusive property of those already employed there, successes of individual enterprises are likely to be taken out by its present staff in the form of higher wages rather than leading to additional employment ([1980] 1984, p.19).

> Britain has been brought to her present plight, not because of

> the lack of skill or industry of the individual worker, but because government and labour organizations, in order to appease groups of workers, have tried to relieve them of the necessity for adjustments by removing the inducements (and rewards) of changing their jobs ([1980] 1984, p.35).

High productivity in an economy requires that individual decision-makers within their respective enterprises not only attempt to allocate each resource to its most highly valued use, it also requires that as little as possible of each resource is used to produce any amount of any output.

> [R]educing costs means setting free resources which could produce more elsewhere. In any particular instance, the primary aim must therefore always be to use as few resources as possible for a given output.... The secret of productivity which makes it possible to employ many at high wages is for each producer to do his job with the use of as few resources as possible....
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> It has come to be thought in Britain [due to unions] that a prime task of economic policy was the protection of *existing* jobs. This fundamental reversal of the truth has developed into a sort of anti-economics which has misrepresented the chief social goal to be the use of as *large* a quantity of resources as possible ([1980] 1984, p.34-5, emphasis in original).

One common manifestation of this phenomenon is union-imposed workplace rules that stipulate the types and amounts of labor that must be devoted to each task. I recently gave a lecture at a convention hotel in Las Vegas. I had prepared a PowerPoint presentation, but I was tardy in requesting the organizers to provide a data projector. When I did, it was too late. I offered to bring my own projector and set it up myself. That, I was told, was impossible because in this union-impaired hotel only in-house equipment could be used, and only union workers could set it up and operate it.

Hayek discussed yet another way by which unions have lowered the overall productivity of labor: through their influence on investment and the composition of the capital stock. Hayek recognized what is today called the holdup problem. Specific capital goods, those which when once acquired and set up by employers have few, if any, alternative uses, present unions with opportunities to expropriate most of the returns from the productivity of those capital goods. The cost of acquisition of capital equipment is its purchase price minus any immediate resale value it may have. If it is specific capital it has few if any other uses, and thus its resale value will be very low. This means almost all of the purchase price is a sunk (unavoidable) cost. Under these circumstances, it is rational for an employer to continue to operate as long as after-tax revenue is any amount over variable costs, which include labor costs. If a union drives up labor costs so that only a penny is left over out of after-tax revenue after the other variable costs are covered, that penny would be the only return to capital. Specific capital has nowhere else to go, so the penny is better than nothing. Of course, employers recognize this danger. That is why most of them try to avoid unionization. Where that is not possible, employers attempt to minimize their purchases of highly specific, relative to less specific, capital equipment, or they simply reduce their investment spending in general.

> It is true that any union effectively controlling all potential workers of a firm or industry can exercise almost unlimited pressure on the employer and that, particularly where a great amount of capital has been invested in specialized equipment, such a union can practically expropriate the owner and command the whole return of his enterprise (1960, p.270).[4]

> Because unions are most powerful where capital investments are heaviest, they tend to become a deterrent to investment – at present probably second only to taxation (1960, p.272-3).

> Personally, I am convinced that this power of union monopolies is, together with contemporary methods of taxation, the chief deterrent to private investment in productive equipment which we have allowed to grow up. We must not be surprised that private investment dries up as soon as uncertainty about the future increases after we have created a situation in which most of the gain of a large, risky

[4] See also Hayek's "Unions, Inflation and Profits" ([1959] 1967, p.285-6).

> and successful investment goes to the unions and the government, while any loss has to be borne by the investor ([1959] 1967, p.286).

Low productivity diminishes the flow of incomes that arise from production and exchange. It decreases the average real standard of living.

> It is more than doubtful...whether in the long run these selfish practices [of unions] have improved the real wages of even those workers whose unions have been most successful in driving up their relative wages – compared with what they would have been in the absence of trade unions. It is certain, and could not be otherwise, that the average level of attainable real wages of British workers as a whole has thereby been substantially lowered. Such practices have substantially reduced the productivity potential of British labour generally. They have turned Britain, which at one time had the highest wages in Europe, into a relatively low-wage economy ([1980] 1984, p.53).[5]

The logical implication of this observation is that, at least in the long run, unions don't benefit the workers they represent. They benefit only union leaders who, in effect, are paid very handsomely to make the rest of us worse off.

The myth that unions benefit the working class dies hard. Yet the evidence is quite clear. "Real wages have often risen much faster when unions were weak than when they were strong; furthermore, even the rise in particular trades or industries where labor was not organized has frequently been much faster than in highly organized and equally prosperous industries" (1960, p.271-2). The best discussion of this question is in Reynolds (1991).

III. Consequences to the Free Society

In addition to their malign economic effects, Hayek saw labor unions as a threat to the free society. In *Law, Legislation and Liberty* Vol. III (1979), while discussing the role of special interest groups in unlimited majoritarian democracies, Hayek pointed out that the

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[5] See also *The Constitution of Liberty* (1960, p.271).

methods commonly employed by labor unions are especially damaging.

> It was a misfortune that these [special interest group] problems became acute for the first time in connection with labour unions when widespread sympathy with their aims led to the toleration of methods which certainly could not be generally permitted.... One need merely ask what the results would be if the same techniques were generally used for political instead of economic purposes (as indeed they sometimes already are) in order to see that they are irreconcilable with the preservation of what we know as a free society (1979, p.89).

Government employee unions have indeed carried the methods of coercion into the determination of public policy in the U.S. The principles of exclusive representation, union security and mandatory good faith bargaining (which I discussed in the earlier paper) in government employment in effect make government employee unions an unconstitutional fourth branch of government.[6]

Hayek was also concerned that the actions of labor unions were leading inexorably to the crippling of the market economy and the emergence of central economic planning.

> It is scarcely an exaggeration to say that, while we still owe our current living standards chiefly to the operation of an increasingly mutilated market system, economic policy is guided almost entirely by a combination of the two views whose object is to destroy the market: the planning ambitions of doctrinaire socialist intellectuals and the restrictionism of trade unions and trade associations ([1980] 1984, p.40).

> [Unions] are using their power in a manner which tends to make the market system ineffective and which, at the same time, gives them a control of the direction of economic activity which would be dangerous in the hands of government but is intolerable if exercised by a particular group....

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[6] This argument is fully developed by Robert S. Summers (1976).

> Unionism as it is now tends to produce that very system of overall socialist planning which few unions want and which, indeed, it is their best interest to avoid (1960, p.272-3).

IV. A Remedy?

Hayek thought that collective bargaining, as it had evolved by 1972 in Britain, created so many problems that it simply had to be replaced by some "alternative method of wage determination which, while offering the worker as a whole a better chance of material advance, at the same time restores the flexibility of the relative wages of particular groups" (1973, p.117). He came up with a specific solution:

> The only solution of this problem I can conceive is that the workers be persuaded to accept part of their remuneration, not in the form of a fixed wage, but as a participation in the profits of the enterprise by which they are employed. Suppose that, instead of a fixed total, they could be induced to accept an assured sum equal to, say, 80 percent of their past wages *plus* a share in profits which in otherwise unchanged conditions would give them on the average, their former real income, but, in addition, a share in the growth of output of growing industries. In such a case the market mechanism would again be made to operate and at the same time one of the main obstacles to the growth of social product would be removed (1973, p.117, emphasis in original).

He recognized that such a proposal "raises many difficult problems" (1973, p.117), but he did not discuss any specific examples. I think that union leaders, whose incomes depend on sustaining the illusion that employers and employees are natural enemies, would fight this idea every time and in every venue in which it was proposed. Given Hayek's distaste for schemes imposed by government, I doubt that he would support any legislation aimed at forcing this outcome. It would have to be adopted by willing employers and employees, one enterprise at a time. Still, given the success of several different profit sharing plans in American union-free enterprises, the idea cannot be dismissed as an impossible dream.

Hayek's profit sharing proposal must not be confused with the insidious institution, particularly popular among muddled thinkers even today, called codetermination. This idea calls for government to require that workers (and, often, other "stakeholders") be given a role equal to the role of owners and their agents in controlling most aspects of businesses. Efficiency in the allocation of resources depends crucially on decision-makers in firms being accountable to the owners of the firms and that the criterion for success is the maximization of long-term owner value through voluntary exchange. To maximize long-term owner value it is necessary for decision-makers to seek to serve the interests of customers, and this requires striving for cost minimization and timely adaptations to changing market conditions. If diverse groups of stakeholders, with diverse objectives, all have partial control over an enterprise, decision-making therein degenerates into a political process based on a strife of interests. Even if decision-making is done democratically, as advocates of "industrial democracy" would have it, choices among three or more alternatives could result in cyclical majorities – i.e., no one alternative can beat all of the others by majority vote – and this would give rise to battles of varying degrees of civility and totally unpredictable outcomes (Barry, 2002).

Hayek was clear in his condemnation of industrial democracy and codetermination. After discussing some legitimate functions for voluntary unions, he asserted that codetermination was not one of them.

> An entirely different matter…is the claim of unions to participation in the conduct of business. Under the name of 'industrial democracy' or, more recently, under that of 'co-determination,' this has acquired considerable popularity, especially in Germany and to a lesser degree in Britain. It represents a curious recrudescence of the syndicalist branch of nineteenth-century socialism, the least-thought-out and most impractical form of that doctrine. Though these ideas have a certain superficial appeal, they reveal inherent contradictions when examined (1960, p.277).

V. Conclusion

The Thatcher reforms of British labor law by the Employment Acts of 1980 and 1982 and the Trade Union Act of 1984 went a long way toward removing the most egregious privileges and immunities

British unions had enjoyed since the 1906 Trades Disputes Act, but there is still a way to go before British unions become truly voluntary. In the U.S., union law has changed very little since the 1959 amendments to the National Labor Relations Act (which fecklessly attempted to give rank-and-file members more control over union leaders). All the worst privileges – exclusive representation, union security, and mandatory good faith bargaining – plus court-granted immunity to prosecution for acts of violence during labor disputes remain. As Hayek said about the economic myths that sustain coercive unionism, "A departure from such a condition can come only from a truer insight into the facts, and whether this will be achieved depends on how effectively economists do their job of enlightening public opinion" (1960, p.273). Indeed, to be a true friend of labor one cannot be a friend of coercive unionism.

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