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TIMES TUESDAY AUGUST 7 1984

Jobs: the basic truths we have cast aside

By F. A. Hayek

Many truths have been progressively obscured by the tendency to make concessions to group interests to avoid friction. These things concern no less than the traditions which once made Britain the most advanced industrial nation. The abandonment of those traditions has led to industrial decline and the fall of the real wages of the British workers from the highest to nearly the lowest among the advanced nations. I refer to the power of the trade unions to deny other workers access first to jobs and second, if they are not able to obtain the wages fixed by the unions, the assistance of capital investment at their workplace.

As is true of every other instance in which it becomes impossible to sell the whole supply of any goods or services, extensive unemployment is always the effect of the enforcement of a rate of wages which the unemployed are not allowed to underbid. The productivity of any kind of labour is bound to fluctuate. Continued full employment requires a corresponding flexibility of wages.

While an enterprise can afford to grant long term contracts to some of its staff and would wish to do so to some of its manual workers, if the unions allowed it the number it can employ at a given wage without loss necessarily varies with the demand for its particular product. It would not be in the interest even of the workers in general if the capital out of which wages are paid were gradually used up to pay workers more than they contribute to current output.

The alternative, as in the case of a fall of demand for any product, is a reduction of wages or a reduction of employment. If the former is impossible, the latter is inevitable. A steady level of employment requires flexible wages; fixed wages make fluctuation in employment inevitable. The people who prevent the

unemployed from getting a job are the employed who will not allow them to work for less than the wages currently determined by the unions.

The ancient truth that wage fixing is bound to cause unemployment means that the fight against unemployment must be a fight against the monopolistic control of jobs. It is the dictatorial determination of wages by the threat of physical force which deprives increasing numbers of employment which would be equally beneficial to them and to their employers. Making jobs artificially scarce in this manner in order to obtain higher wages for some is certainly exploitation if this term has any meaning.

I will not touch here on the complex question whether the peculiar British union system, by effectively freezing the structure of relative wages, has reduced rather than increased the productivity, and therefore also the real wages, of the employed. But there is another effect of pushing up the wages of limited groups at the expense of the rest of the workers which has long been recognized but has been given quite insufficient attention.

While it is generally understood that an increase of wages makes it necessary to replace some labour by capital or, what amounts to the same

thing, that the use of more capital makes it possible for an enterprise to operate with fewer workers to whom it can afford to pay higher wages, it is not always recognized that this also means that the groups who can push up wages most will thereby divert a greater part of the supply of capital for their benefit. As a result, workers in other fields must do with less modern equipment that might have raised their productivity and their wages.

This is even more clearly a monopolistic exploitation by relatively small groups of workers who, by pushing up the wages for a few, deprive their fellows in other branches of the share of the current investment which in a free labour market would assist them to increase their productivity.

In short, unless an individual worker belongs to the limited number of select who have successfully acquired monopoly power in one of the industries on which most others are dependent, and which enabled them to attract an inordinate share of the available capital which raised their productivity per head far above average, he is left to fall back into the mass of not unskilled, but inadequately equipped workers whose remuneration must appear

disproportionate to that of the privileged union monopolists.

This form of exploitation of the majority of workers through the policies of the strongest unions is often overlooked. Whatever unions ought to be allowed to demand for their own willing members, nothing short of a strict prohibition of intimidation of others can prevent both the progressive increase of unemployment and a continued decline of the standard of life of the British workers compared to those in the countries which have preserved more competitive labour markets. There is no hope for the British economy and the majority of its lowly paid or unemployed workers unless the monopoly of the privileged wielders of force is radically removed.

Those who suffer from this monopoly should form a libertarian anti-labour union movement of workers directed against what has long become a deceptive farce favouring an elite that has gained dominance in a party wrongly claiming to represent the interests of all workers. Once it is recognized that the unions prevent people from getting jobs, such a movement may readily spread.

This is an issue on which there can be no honest compromise. Differences on basic principles may be temporarily disguised, but cannot be resolved by concessions. A market economy cannot be preserved but must steadily decline if the use or threat of physical force to prevent competition is tolerated. Individuals are entitled to refuse to work, but never to prevent others from working. It was the desire to avoid friction by glossing over this difference that has gradually paralyzed the British economy. There is now for the first time a hope that this trend may be reversed.

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The author won the Nobel prize for Economics in 1974.