THE CASE OF THE Free Rider

PETER A. FARRELL

THOSE among us who persistently support economic arrangements of a compulsory nature and who, ironically enough, are called liberals, have rallied stoutly to the proposition that no worker should be allowed to withhold support from a union favored by the majority. The worker who resists such a union exposes himself to heavy attack. One clergyman, for instance, refers to the activities of the "free rider" (the nonunion man on a unionized job, in case you haven't heard) as being "inequitable, unjust, and *immoral*"[1] (emphasis added). A college ethics text describes[2] the nonunion man on a union job as "a parasite" who "share(s) in the common good without contributing to that good." According to this learned view it would seem that a worker earns his way in society not by actually working but rather by paying his union dues.

The argument by which the independent worker has been transformed into a social leech has been exposed and refuted time and again but, like the "machines throw men out of work" fallacy, it refuses to die.

In the first place, union dues are used for many purposes other than the support of collective bargaining which allegedly makes possible the good things which workers receive. They are used to support political candidates and programs, and, as has been abundantly documented by various official inquiries, they are sometimes tapped by unscrupulous union

[1] Jerome L. Toner, O.S.B. in *Right-to-Work Laws and the Common Good,* a pamphlet by the United Steelworkers of America, p. 10.

[2] Herbert Johnson, *Business Ethics* (New York: Pitman Publishing Corp., 1956) pp. 262-63.

Mr. Farrell is Instructor of business and economics at Marist College in Poughkeepsie, New York.

leaders for their own personal use.

That a worker should be forced to contribute funds to political causes which he actually opposes seems illiberal and undemocratic to say the least. Nor can union participation in American politics be written off as insignificant. It is indeed a crucial factor in many elections. That a worker impairs the common good when he refuses to subsidize the various undesirables who have gained power in the labor union movement is ridiculous on the face of it. It is well to recall in this regard that the Teamsters Union with 1.5 million members is the largest single union in the United States.

Those favoring the union line in the compulsory union controversy usually imply that the union is forced to "service" nonunion workers by representing them at the bargaining table. But as one critic of compulsory unionism has aptly replied:

> What is not told is that "exclusive representation" (by which a union bargains for all employees in the bargaining unit and not just its own members) was fought for strenuously by the unions on the grounds that if they did not bargain for nonunion workers, the employer could use favoritism toward the nonunion workers as a means of destroying the union . . . therefore it should be pointed out that nonunion workers in an open shop today are not free riders but forced riders since under the Taft-Hartley Act they lose their right to bargain with their employer and are forced to bargain through the union.[3]

The issue is thus in clearer focus. The union chieftains fought for the elimination of the right of nonunion workers to contract for their own wages. Having achieved this, they and their intellectual champions have proceeded to castigate the nonunion men for not supporting the very organizations which have caused them to lose an important right. The last thing the unions would want would be a situation where they no longer had the extraordinary power to bargain for all workers within the bargaining unit.

Limits to Union Achievements

As decisive as these points are in deflating the free rider indictment, more basic factors deserve consideration. The free rider charge, after all, is based on the assumption that unions do in fact produce higher wages for workers. Now, economic theorists are in general agreement that through concerted action (refusing to work

---

[3] Edward A. Keller, *The Case for Right-to-Work Laws.* (Chicago: The Heritage Foundation, 1956), p. 42.

at less than a prescribed wage), resource suppliers (workers) can force the price (wage) that they receive for their resource (an hour's labor), above the level that would otherwise prevail. All of this, of course, is exactly what a union attempts to accomplish.

However, the higher price for labor bears with it unpleasant side effects. Most notably, the substitution effect would set in at two possible levels. The employer, for one, would substitute those alternative resources (automated machines, for example) which under the new conditions are cheaper than manpower. Consumers of the finished product, on the other hand, would be encouraged to substitute whatever finished products the market provided at a now cheaper price. The greater the possibility of substitution at the two levels, the more drastic would be the reduction in the use of the resource following an increase in its price, or in our case, the greater would be the number of workers laid off.

With this analysis in mind it is not surprising to learn that widely noted statistical studies have shown that a great many unions are ineffective in raising wages.[4]

[4] Albert E. Rees of the University of Chicago estimates that one-third of U.S. unions have had no effect on wages. See *Wage Inflation* (National Industrial Conference Board, New York, 1957) pp. 27-28.

The union leaders in question recognize that higher wages would result in widespread and immediate unemployment. They are forced, therefore, to accept what is offered. Such unions seldom make the headlines and their presence, therefore, is likely to go unnoticed. Clearly, the free rider charge is meaningless in this situation based as it is on the assumption that the union does produce results.

Sometimes, however, substitution of other resources by the employer or other finished goods by the consumer is unfeasible in the immediate future. Here, the union leader is likely to make bold demands for wage increases. If the demands are not met, a strike will be called and efforts made to insure that operations are suspended for the duration of the strike. If the company voluntarily shuts down, the strike likely will proceed on an uneventful note; but if it attempts to continue operations (which, of course, it has every right to do) union-incited violence becomes a likely result. Mass picket lines will be set up to isolate the plant from raw materials and willing workers. Cars entering the plant will be overturned, while workers attempting to enter by foot will be punched and shoved and subjected to the rawest kind of verbal abuse. Acts, which in any other circumstance would result in prompt arrest, will curiously enough be overlooked by local authorities.

In May of this year when a taxi strike developed in New York City, eight drivers who defied the union by continuing to operate had their windshields smashed.[5] Another had sugar placed in the gas tank of his cab. The mayor of the city reportedly considered this situation ". . . normal as can be with a taxi strike."[6] No arrests were reported. In a 1965 taxi strike, several uncooperative drivers found their cabs gutted by fire and numerous others were terrorized by roving goon squads.[7] These episodes, unfortunately, are only recent examples of a pattern that continually repeats itself wherever unions are powerful.[8]

If, as often happens, the company capitulates to these tactics and grants the higher wage demanded, the union will appear to have won a smashing victory for the workingman. The nonunion man will be ridiculed more than ever for receiving benefits at the hands of the union without paying his share of the cost of maintaining the union.

No Lack of Substitutes

However, one can think of numerous reasons why the free rider charge is still lacking in validity. For one thing, substitution is still likely to occur after market participants have had time to adjust to the new situation. New substitute resources will be developed by producers. Substitute products previously considered too expensive will be marketed by competitors. Importation of foreign goods will be increased, and at the same time, research and development may bring forth entirely new discoveries making the original product obsolete (just as government price supports have stimulated the development of synthetic fabrics injuring the cotton and wool industries which the price supports were intended to help). In all these ways and more, a free market can adjust to an increase in the cost of labor induced by a union.

A worker lacking seniority might well realize that he would be among the first to be laid off. In resisting the union, therefore, rather than taking a "free ride," he would be protecting his very livelihood. If he is obliged to sup-

---

5 New York *Daily News*, May 13, 1966, p. 3.

6 *Ibid.*

7 New York *Herald Tribune*, July 1, 1965, p. 1.

8 For a comprehensive analysis of union tactics see Professor Sylvester Petro's *Power Unlimited: The Corruption of Union Leadership* (New York: The Ronald Press).

port the union, he would be forced to subsidize the very organization that is doing him in.[9] Among socialists generally there is a presumption that the interests of all workers are identical, but, as this instance shows, that presumption is wrong.

For another thing, the worker may justifiably abhor the violent and coercive tactics that the union threatens or actually invokes. The end, most people would agree, does not justify immoral means.

Finally, the nonunion man may realize that any wage increase he actually receives through the union will be paid for: (1) by a decrease in the real income of consumers, who, for the most part, are workers themselves, and (2) by a loss of earnings by those workers who are forced into less desirable jobs. His gain will be their loss. It is just possible that he may prefer not to join in the exploitation of other workers. That a union, rather than the greedy capitalist of socialist lore, is the real exploiter of the working man is, of course, a substantial irony in itself. The union may hurt the employer in the short run but not indefinitely. This is true because any plant may be closed down when profit margins shrink below acceptable levels. Capital may then be re-invested where more profitable opportunities are thought to exist.

All of this points to the conclusion which numerous statistical studies have substantiated, that unions have not actually enhanced the workingman's overall share of national income.[10] Rather, through their monopolizing tactics, they have increased the wages of a relatively small group of workers while causing many more workers to suffer a reduction in real wages. If anyone emerges from this situation as a "free rider," it is the union itself and those who support it rather than the worker who resists it.

We are now in a position to appreciate David McCord Wright's advice:

> . . . that we deflate our absurdly over-expanded idea of the net beneficence of unions . . . and see them for what they are – often reactionary agencies of personal privilege.[11]

[9] For an excellent analysis of this situation see Professor Philip D. Bradley's study, *Involuntary Participation in Unionism* (Washington: The American Enterprise Association, 1958).

[10] In Philip D. Bradley's study noted in the above footnote, the conclusions of seventeen relevant studies are summarized as follows:

1. Unions have not raised the general level of real wages in the United States.
2. Unions have not increased labor's share in the national income.

[11] David McCord Wright, "The Canadian Compulsory Conciliation Laws and the General Problem of Union Power," *Notre Dame Lawyer*, XXV, No. 5 (1960), 651.

The Supremacy of the Market

LUDWIG VON MISES

IN THE MARKET ECONOMY the consumers are supreme. Their buying and their abstention from buying ultimately determines what the entrepreneurs produce and in what quantity and quality. It determines directly the prices of the consumers' goods and indirectly the prices of all producers' goods, viz., labor and material factors of production. It determines the emergence of profits and losses and the formation of the rate of interest. It determines every individual's income. The focal point of the market economy is the market, i.e., the process of the formation of commodity prices, wage rates and interest rates and their derivatives, profits and losses. It makes all men in their capacity as producers responsible to the consumers. This dependence is direct with entrepreneurs, capitalists, farmers and professional men, and indirect with people working for salaries and wages. The market adjusts the efforts of all those engaged in supplying the needs of the consumers to the wishes of those for whom they produce, the consumers. It subjects production to consumption.

The market is a democracy in which every penny gives a right to vote. It is true that the various individuals have not the same power to vote. The richer man casts more ballots than the poorer fellow. But to be rich and to earn a higher income is, in the market economy, already the outcome of a previous election. The only means to acquire wealth and to preserve

---

This article is from *Planned Chaos,* written as an Epilogue for a Spanish edition of *Socialism,* and first published as a book in English by the Foundation for Economic Education in 1947.