Historical Insights: The Early Institutionalists on Trade Unionism and Labor Policy

BRUCE E. KAUFMAN
Georgia State University, Atlanta, GA 30303

I. *Introduction*

My prior article in this symposium (Kaufman, 2004a) evaluated trade unionism through the lens of modern economic theory; this paper pursues the same tact but through the lens of history. The historical dimension examined is the writings of the first group of American labor economists to extensively consider the subject of trade unions and labor policy. This group is the early institutional labor economists, centered on John R. Commons and the Wisconsin School, who founded and dominated labor economics in the United States in the first third of the twentieth century.

My purpose for this review is partly to provide an historical (and heterodox) perspective to the subject of unions and labor policy that is largely omitted by Freeman and Medoff (F&M, 1984) in *What Do Unions Do?* The more important reason, however, is that this early literature provides a substantially different and more positive theoretical perspective on unions than is typically found in more modern writings. The early institutionalists were sympathetic to the mission and accomplishments of the labor movement and attempted to develop a body of theory that gave a public interest rationale for an expanded role for collective bargaining. This project achieved great success in the 1930s with passage of the National Labor Relations Act and the emergence of mass unionism. Although these events and ideas are of interest for their own sake, they seem particularly relevant for this symposium given F&M's parallel goals of constructing a more compelling theoretical rationale for unionism and encouraging greater union density through labor law reform.

In developing this study, I proceed in three steps: an overview of the theoretical framework developed by the early institutional economists to analyze labor markets; a more detailed look at their theory of trade unions and collective bargaining; and, finally, a review of the role and function of trade unions in their larger strategy of labor market reform. Implications and conclusions are given at the end.

II. *Intellectual Precursors*

The economics profession has always been divided on the subject of unions, although it is fair to say that the weight of thinking over the years has tended toward the skeptical-to-negative. But there are also notable exceptions.

Given his stance in favor of relatively unrestricted market competition, one would think, for example, that Adam Smith would have taken a dim view of trade unions. Surprisingly, however, he saw a potentially useful social role for them. In Chapter 8 of the *Wealth of Nations*, Smith (1776: 66) observes, "What are the common wages of labour, depends every where upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. . . . It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage. . . . In all such disputes the masters can hold out much longer. . . . In the long run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate." In this passage Smith speaks to what has always been the most compelling rationale for unions — to level the playing field and protect the underdog — and it is a thread woven throughout the remainder of this chapter. It is also a justification for unions, as noted in my earlier paper in this symposium, that is conspicuously absent from *What Do Unions Do?* and from most of the modern economics literature.

A century later, some economic theorists followed Smith's reasoning and took a similarly open-minded stance on unions. The most prominent example is Alfred Marshall (1961: 335–36) who declares "while the advantage in bargaining is likely to be pretty well distributed between the two sides of a market for commodities, it is more often on the side of the buyers than on that of the sellers in a market for labour." This led him to express cautious support for trade unionism, if practiced in a responsible and moderate manner — a position reinforced by his belief that the primary reason workers combine is due to "the unfairness of bad masters" (Petridis, 1973).

The dominant view in the American economics profession of the late nineteenth century, however, was decidedly more negative with regard to the purpose and effects of trade unions (Bendix, 1956; Perlman and McGann, 2000). Influential at the time were doctrines such as the wage fund, laissez-faire, freedom of contract, and Social Darwinism. Representative of the tenor of the times is this statement by Arthur Latham Perry (1878), who maintains that the solution to the worker's problems is (p. 200) "to look out for his own interest, to know the market value of his own service, and to make the best terms for himself which he can; . . . the remedy . . . is not in arbitrary interference of government in the bargain, but in the intelligence and self-respect of the laborers." He then condemns collective bargaining and strikes as (p. 204) "false in theory and pernicious in practice . . . they embitter relations between employers and employed . . . and rarely or never are permanently advantageous."

Views such as these, and the deductively derived theory of English classical and neoclassical economics that supported them, led a group of socially conscious and reform-minded American economists in the late nineteenth century to seek an alternative in German political economy of the historical-social school (Kaufman, 2004b). German economics stressed that all theories are historically contingent; theory should be "realistic" and thus built from an inductive process of empirical observation and investigation; all economic activity takes place within social and legal institutions; and active state management of the economy is necessary for economic progress and social order (Fine, 1956; Yonay, 2000). Young American economists, such as Richard Ely, came back to the United States from their German studies and endeavored to introduce this new approach here. Toward this end, they created the American Economics Association (1885) and, later, the institutional school of economics. They also became the first scholars to intensively study the labor movement and espouse its broad aims and purposes (Ely, 1886).

III. *The Early Institutional Perspective on Labor Markets*

The focal point of the institutionalists' research program was the study of labor, given that they saw the conditions of labor as the nation's number one economic and social problem, and their object was to improve the position of labor and balance and harmonize employer-employee relations through wide-ranging institutional reform. To accomplish these reforms, they pursued a three-pronged strategy: documenting the existence of serious labor problems, constructing a body of theory that showed these problems were neither efficient nor unalterable outcomes, and constructing a multi-step program of institutional change to solve the labor problems. One of the steps in their reform program was expanded trade unionism and collective bargaining — an agenda item finally realized in 1935 with the passage of the National Labor Relations Act.

Labor Problems. The concept of "labor problems" is seldom encountered in the modern economics literature but is crucial to understanding why the early institutional economists supported trade unions and expanded collective bargaining. In the first half of the twentieth century the study of labor most often went under the title "Labor Problems," not "Labor Economics" (McNulty, 1980; Kaufman, 1993). The difference in perspective is fundamental, since the existence of numerous "problems" immediately suggests that the status quo may well not be either efficient or welfare maximizing.

Nearly every labor textbook of this early period (e.g., Adams and Sumner, 1905; Estey, 1928) began with several chapters devoted to "Evils," "Problems," or "Grievances" and included a standard list of topics, such as low wages, excessive work hours, child labor, employment insecurity, industrial accidents, and autocratic shop governance. Individually, each of these outcomes was portrayed in a negative light as socially injurious and often economically wasteful; collectively, they were seen as the source of growing class conflict between Capital and Labor and the cause of mounting strikes, labor violence, and interest in Socialism. The cause of labor problems, in turn, was traced back to defects and maladjustments in the existing institutional structure. Three factors in particular were highlighted: treatment of labor as a commodity in a system of unregulated labor markets; a monarchial system of work force governance in which employers have largely unrestricted rights as to the management and treatment of labor; and a political and economic system in which property rights, wealth, and political power are skewed in favor of the rich and business class. The result, as portrayed in these textbooks, was a lopsided, socially suspect distribution of wealth and power in which an elite enjoyed great luxury and largely unrestricted control of industry while millions of other Americans spent twelve-hour work days earning poverty-level wages in the nation's mills and factories, risking immediate termination for the least offense.

New Economic Theory. Documenting and publicizing the existence of numerous serious labor problems was crucial to the institutional project because it provided empirical evidence that both called the orthodox body of economic theory into question and created a compelling case for social reform. These economists thus became famous for detailed case studies and field investigations of labor conditions and institutions. But "facts" by themselves are not always persuasive; what is also needed is an intellectual theory or framework that indicates why labor problems occur and how they can be solved. In particular, since the orthodox theory of the day suggested that labor unions (and labor legislation) are either futile or pernicious, legitimating these institutions required a legitimating set of ideas. This was the goal of the early institutional labor economists.

The first and in many respects most influential attempt at institutional theorizing was done by the English historical economists/sociologists Sidney and Beatrice Webb in their book, *Industrial Democracy* (1897). Their ideas were then elaborated and developed by American labor economists, such as John R. Commons, Sumner Slichter, William Leiserson, Henry Seager, Harry Millis, and Paul Douglas. [Although modern economists tend to put Paul Douglas in the neoclassical camp, according to Reder (1982) he was regarded by his colleagues at Chicago as an institutionalist.] In modified form, this body of thought was in turn adopted by a younger generation of "neo-institutional" labor economists, such as Dunlop, Kerr, Lester, and Reynolds, and under their influence dominated research in labor economics through the mid–late 1950s (Kaufman, 1988). This tradition has been largely displaced by modern-day neoclassical economics in the field of labor economics, but remains the intellectual core of the field of industrial relations. Thus, when F&M cite in *What Do Unions Do?* (p. 3) ideas and evidence that supports trade unions by "industrial relations experts," they are referencing this institutional and neo-institutional tradition (Kaufman, 2004c).

The theory of the early institutionalists is not "theory" in the formal, analytic sense in which that term is often used today. They did nonetheless construct a logically connected, coherent body of ideas and relationships that gave a significantly different view of labor markets and the role of unions therein. Three parts of it are important for understanding their perspective on unions.

The first is the effort of the institutionalists to substitute a different set of welfare criteria for evaluating economic performance. Orthodox economics typically takes economic efficiency as the sole criterion, with other social goals ruled out as normative and thus not amenable to scientific analysis. The early institutionalists, however, believed that all economic theory is inherently normative so they felt it permissible to introduce explicit normative criteria. [Commons (1934a) states the goal of institutional economics is to "correlate economics, law, and ethics," based on the idea that the rules of the economic game (a.k.a. "institutions") are determined by human laws, and that all laws rest on ethical beliefs about right and wrong]. In their view, efficiency is important but so too are two other humanistic goals: first, achievement of equity and justice in workplace procedures and outcomes and, second, structuring the work experience so it contributes to human self-development and self-actualization (Kaufman, 1997).

If efficiency is the only goal, economic activity is judged solely on its contribution to consumption and production of material goods and services, and labor inevitably becomes a means to an end — an expense to be minimized and a source of work to be maximized. In such a view, the danger is that (Slichter, 1931: 653) "man is a slave to industry rather than industry a servant to man." He then says (pp. 651–52), "It is vitally important that the methods of production shall be planned not only to turn out goods at low costs but to provide the kind of jobs which develop the desirable capacities of the workers. . . . It is just as important to make work more pleasant as less onerous as it is to make farms and factories produce more commodities." Also illustrative of the point of view is this statement by Commons (1919: 33) in which he contrasts the two schools of thought: "they [workers] are treated [in orthodox theory] as commodities to be bought and sold according to supply and demand," whereas in institutional theory "they are treated as citizens with rights against others on account of their value to the nation as a whole."

The second place these early labor economists modified orthodox theory is in the theory of the human agent. According to Commons (1934a: 870), the neoclassical conception of the human agent is "an infinite being capable of making all of his transactions at a single instant of time." He argues, however, that institutional economic theory should be based on a more realistic model and, in particular, one congruent with empirical research in psychology and sociology. These ideas were later taken up by Herbert Simon and the Carnegie School — most famously in Simon's idea of "bounded rationality" — and today comprise the field of behavioral economics. Thus, Commons (1934: 874) states that human behavior is largely purposive and reasoned but at the same time heavily imbued with elements of "stupidity, ignorance, and passion" — or limited cognition, imperfect information, and emotional affect in modern terms (Kaufman, 1999a).

One element of "passion" is an emotional commitment to fairness, making relative comparisons a ubiquitous influence in wage determination and a major source of discontent in business firms. Another consequence of bounded rationality is that the policies and practices of business firms are often not optimal, even when evaluated against the narrow criteria of profit and efficiency; yet another is that firms often do not minimize cost and thus operate with organizational slack. In this regard, Slichter (1931: 641–42) observes, "Managements, of course, are never as efficient as they might be. . . . When a union succeeds in obtaining a wage increase, managers feel a special need of finding ways to get more work out of the force. In fact, the shock to managerial complacency which is produced many be precisely what is needed to jolt an administration out of a rut." A fourth consequence of passion is that many aspects of workers' behavior connected with unions cannot be completely understood in terms of individualistic, rational calculations, since the decision to organize or strike (as examples) is partly motivated out of emotional states such as frustration, envy, injustice, and hatred (Wheeler, 1985; Kaufman, 1999b).

The third key area of revision is with respect to the structure and operation of labor markets. As described in my earlier theory paper (Kaufman, 2004a), the tendency in neoclassical economics is to examine labor markets through the lens of competitive theory and to view competition as a force promoting the social good and the interests of workers. Competition, for example, achieves an optimal allocation of resources, induces firms to pay workers compensating wage differentials for unsafe jobs, and gives workers an opportunity to quit a bad employer for a good one.

The early institutionalists took a more ambivalent stance on competition, seeing it as sometimes a positive force but at other times a negative force. Illustrative is the comment of Adams (1886: 34) that "Competition is neither malevolent nor beneficent but will work malevolence or beneficence according to the conditions under which it is permitted to act," and that of Leiserson (1938: 15), "There is nothing inherent in economic laws that makes them necessarily work out to promote human welfare if allowed free play. They need to be controlled and directed [by institutions] if we want them to accomplish human purposes."

With respect to labor in early twentieth-century America, the early institutionalists concluded that competition, if not regulated and "institutionalized," would often work against human welfare and social progress. For example, Commons states (1919: 29) that competition "tends to bring the advanced employers down to the level of the backward" and (p. 37) "ends in the despotism of powerful individuals." The same perspective is voiced in this statement by Slichter (1931: 195), "This competition [in the labor market], if unrestricted, is likely to result in low wages, a killing speed of work, an excessively long working day, and hazardous and unhealthy shop conditions."

To make competition promote human ends, they concluded, it not only has to be free but also *fair* and *balanced* (Budd, 2004). Competition is fair and balanced when the rules of the game do not unduly favor one side over the other, both sides have reasonably equal opportunities and access to markets, and neither the buyers nor sellers have a lopsided advantage in resources (endowments). The idea of fair and balanced competition leads to what is arguably the single most important positive and normative concept in the early institutional literature — *equality of bargaining power*. Equality of bargaining power was never rigorously defined, but its origin and common-sense meaning go back to Adam Smith (the quotation previously cited) and essentially implies a "level playing field" in wage determination. With an *in*equality of bargaining power, the wage determination process is tipped against the individual worker, causing wages and working conditions to be lower than otherwise. Thus, Commons and Andrews (1936: 373) state, "The need for collective bargaining arises from the serious discrepancy in 'withholding power' between the individual employer and individual wage earner, a discrepancy which tends to result in terms of employment highly oppressive to the workers and injurious to society in general. It is obvious that the individual laborer is at a great disadvantage in bargaining with an employer. . . . It is a case of the necessities of the laborer pitted against the resources of the employer." On a normative level, the early institutionalists made equality of bargaining power one of the fundamental goals of labor policy, per the comment of Commons and Andrews (p. 532), "equality of bargaining power . . . is a principle so important for the public benefit that it becomes in itself a public purpose."

Equality of bargaining power became a normative purpose because only then will the terms of the labor contract pass the ethical test of "reasonableness" — the standard used in the courts of law and public opinion in determining the need for market regulation (Commons and Andrews, 1936). From this perspective, therefore, the economic case for market regulation thus turns, in significant degree, on the proposition that the worker's disadvantage in bargaining power is so substantial that it results in socially unacceptable, and often economically inefficient, terms and conditions of employment. Such conditions legitimate, in turn, abridgement of freedom of contract in labor markets through government regulation of employment. The institutionalists' legal argument supporting this position is that since the courts had earlier ruled that other forms of commercial contracts could be declared null and void if it could be shown that one side had been coerced into agreement, the state thus had constitutional grounds for abridging freedom of contract in labor markets where conditions of unemployment and dire economic necessity drive workers into agreeing to onerous terms and conditions of employment. Without such regulation, competition and freedom of contract can turn workers into "wage slaves" (Glickman, 1997).

Inequality of bargaining power may arise at two different levels in the market exchange process. One is because of greatly unequal endowments or skewed rules of the game.

To illustrate, one rule of the game that was much disputed in the early twentieth century was immigration law. Business interests, in particular, favored a policy of unlimited immigration, while many social reform groups and the above-cited economists favored legal limits on immigration. In a demand-supply diagram of a competitive labor market, the effect of the legal rule is to determine the location of the labor supply curve — a legal limit on immigration shifts it to the left and wages are high(er) while an unrestricted immigration rule shifts it (far) to the right and wages are low(er). Viewed through the prism of orthodox microeconomics, where the rules of the game are typically taken as a "given" and the welfare criterion is efficiency, the latter outcome, even if very unequal between capital and labor, appears unobjectionable because it passes the test of Pareto optimality.

Based on an alternative welfare test of reasonableness, however, the resulting terms and conditions may well be viewed as unacceptable. With unlimited immigration, the labor market is flooded with workers and the equilibrium price of labor (and associated working conditions) is driven down to a low level. Not only does this legal rule clearly benefit one class over another (the further to the right is the labor supply curve, the smaller is the wage bill paid to labor, given an inelastic demand curve, and the higher are profits earned by employers), it may well lead to wages and working conditions — even if "competitively" determined — that are clearly injurious to the efficiency of the economy and welfare of a large segment of society. Sweatshop conditions in the needle trades and 12-hour/seven-day work weeks in the steel industry are but two examples from this era. From an institutional perspective, therefore, this is a case of competition that is neither fair nor balanced — particularly in light of the fact that manufacturers had successfully lobbied Congress for high tariffs to protect their product markets from "unfair" foreign competition. Going further, to them this looked like a case of "institutional exploitation" — not the low wages that arise from "market exploitation" in orthodox theory (e.g., monopsony) — but from the low wages and dehumanizing work conditions that result from legal rules that result in a contrived oversupply of labor and cutthroat competition among workers (Taylor, 1977).

The second place inequality of bargaining power may arise is because of imperfect competition in labor markets. Abstracting from the size of endowments, a natural reference point for an equality of bargaining power in the labor market is perfect competition (Kaufman, 1989). In perfect competition, the individual employer and worker have equal bargaining power (zero, because both are wage takers) and confront each other on a level playing field. The fact of the matter, however, is that "some of our most imperfect markets are labor markets" (Lester, 1941: 43) and (p. 44) "Generally, it is easier for buyers to dominate the labor market and control the price of labor than it is for them to control the markets and prices of standard commodities." The result is that the individual worker is in an inferior bargaining position, leading to less than competitive outcomes and a measure of (market) exploitation.

The institutionalists advanced a number of reasons why labor markets are imperfect and lead to the worker's disadvantage in wage bargaining. The first is that labor markets are quoted price markets (rather than a bourse, as pictured in competitive theory), so wages are administered prices and workers are placed in a "take it or leave it" situation vis-à-vis the individual employer (Dunlop, 1944). A second is the existence of imperfect and asymmetric information in the labor market. Employers, in their view, are usually more knowledgeable about labor market conditions and can drive the better bargain, while workers are disadvantaged because the quality and quantity of working conditions is known to the employer but not to the worker ex ante to the employment contract (Slichter, 1931). A third imperfection arises from segmented labor markets and discrimination, such as against women, blacks, and foreign-born workers, which artificially limits the demand for their labor (Kaufman, 1991, 1997). A fourth feature of labor markets that tips bargaining power against workers, although not technically a market imperfection per se, is the fact that labor cannot be inventoried and workers typically have only a small financial reserve fund, thus putting extra pressure on them to sell their daily labor at whatever price it can fetch (Webb and Webb, 1897).

An additional source of employer control over wages is due to monopsony and employer collusion. Classic forms of monopsony were more widespread in this historical era. One economist estimated, for example, that two million workers in the 1930s were employed in local communities with only one significant employer (MacDonald, 1938: 77). Also illustrative is the remark of Senator Robert Wagner (quoted in Huthmacher, 1968: 64), after touring company-owned Appalachian coal camps, that "had I not seen it myself, I would not have believed in the United States there were large areas where civil government was supplanted by a system that can only be compared with ancient feudalism." Regarding employer collusion, Millis (National Labor Relations Board, 1985: 1555) states, "Even in a city like Chicago, an industry may dominate a large community, and the firms engaged in it may control the situation within rather wide limits. Going beyond this, I would cite a number of instances where associations of manufacturers or merchants have fixed wage scales or, indeed, maximum wages to be paid and have enforced them more successfully than any American state has enforced its minimum wage standards."

If monopsony is defined broadly to cover any employment situation where an employer faces an upward sloping labor supply curve, then according to the institutionalists, it is widespread to the point of being ubiquitous in medium-to-large companies. In their view (e.g., Slichter, 1931; Reynolds, 1946), firms, for example, often confront a kinked labor supply curve — a horizontal part for new hires but an upward sloping part for the "inframarginal" workers who confront mobility costs from accumulated seniority rights, benefit entitlements, and specific on-the-job training. The firms thus pay competitive market wages to the new hires (the "marginal" workers) but may pay less than competitive wages to the inframarginal employees.

Monopsony and related forms of imperfect competition represent a demand-side problem — not enough employers bidding for labor to maintain competitive conditions. To the early labor economists, there was another demand-side problem that was far more prevalent and a much more serious source of unequal bargaining power and anti-social conditions in labor market — a lack of jobs (Commons, 1921a; Kaufman, 1997).

Due to massive immigration, large-scale migration from farm to city, and long periods of recession and depression, most urban labor markets in the early part of the twentieth century experienced a chronic condition of excess supply, putting continual downward pressure on wages and labor conditions, particularly for the unskilled. This process is vividly described by the Webbs (1897: 660):

> When the unemployed are crowding round the factory gates every morning, it is plain to each man that, unless he can induce the foreman to select him rather than another, his chance of subsistence for weeks to come may be irretrievably lost. Under these circumstances, bargaining, in the case of the isolated individual workmen, becomes absolutely impossible. The foreman has only to pick his man, and tell him the terms. Once inside the gates, the lucky workman knows that if he grumbles at any of the surroundings, however, intolerable; if he demurs to any speeding-up, lengthening of the hours, or deduction; or if he hesitates to obey any order, however unreasonable, he condemns himself once more to the semi-starvation and misery of unemployment. For the alternative to the foreman is merely to pick another man from the eager crowd, whilst the difference to the employer becomes incalculably infinitesimal.

Also illustrative is this statement by Commons and Andrews (1936: 48):

> Another reason for the low wage scale, largely the result of the first [extensive immigration], is the cutthroat competition of the workers for work. Among the unskilled, unorganized workers, the wage that the cheapest laborer — such as the partially supported woman, the immigrant with low standards of living, or the workman oppressed by extreme need — is willing to take, very largely fixes the wage level for the whole group.

The early labor economists recognized that wage adjustments play an important and necessary role in allocating labor and maintaining a balance between demand and supply. They also believed, however, that allowing the general level of wages and labor conditions to sink in response to widespread unemployment is most often ineffective and even counter-productive (Commons, 1921b; Slichter, 1931). One reason, anticipating Keynes, is that they believed wage cuts not only fail to restore equilibrium in labor markets but most often worsen the situation. Wage cuts, for example, reduce purchasing power and aggregate demand and corrode employee morale and productivity. Worse, if allowed to proceed, wage cuts can lead to a deflationary process of "destructive competition" in labor markets in which excess supply conditions, restricted factor mobility (e.g., inability to move to another state or country where jobs are available), and the pressure of fixed costs (e.g., ongoing food, shelter, and medical expenses for families) lead workers to bid down wages to rock-bottom levels (Clark, 1924). Steinbeck's *The Grapes of Wrath* (1939) depicted this process among California fruit pickers during the Depression.

The second reason they opposed this process is because of the human toll it takes on workers and their families. If labor were a commodity like wheat or coal, a downward plunge in the wage and labor conditions might well be an efficient method to restrict supply and stimulate demand. When used in labor markets, however, the result is widespread human misery. [Further aggravating the problem is that the aggregate labor supply curve was viewed as negatively sloped (Lester, 1941), so a general decline in wages actually expands the supply of labor in the market and exacerbates the demand/supply imbalance.]

It is evident from the forgoing that unequal bargaining power is, in the institutional perspective, a fundamental feature of early twentieth-century labor markets. The ill-effects of unequal bargaining power reveal themselves, in turn, in the numerous labor problems previously cited — poverty wages, long hours, frequent accidents, and so on. Particularly damaging to the efficiency of the labor market is that competition no longer gives rise to fully compensating wage differentials (or any differentials at all) and, indeed, crowding of the unemployed and marginalized into a restricted range of jobs causes the least agreeable employments to also pay the worst (Commons and Andrews, 1936; Kaufman, 1997). Because competition does not give rise to fully compensating differentials for factors such as risk of injury and disagreeable job characteristics, the private marginal cost of labor to firms is less than the social marginal cost, and workplace "bads" — such as accidents, heat, and polluted air — are overproduced. Firms are also able to shift part of the social cost of production to workers, their families, and the community (Stabile, 1993) — a form of social subsidization of capital the Webbs (1897) called "industrial parasitism."

This discussion leads to the one class of market imperfections not yet discussed in any detail — externalities and public goods. These imperfections are important, partly because they provide much of the rationale in F&M's theory for the benefits of the voice face of unions.

F&M stress that public goods and external effects are most likely to adversely affect the optimal supply of working conditions, a point also well-recognized by the earlier generation of institutional labor economists. A fundamental source of public good and externality problems is indivisible or poorly specified property rights. The desired working conditions, for example, may be "lumpy" and thus non-partitionable — per Lester's (1941: 39) observation that "the desire [of workers] for a larger measure of security simply cannot be chopped up into small particles — the only form in which the market can handle problems." Likewise, because slavery is illegal employers cannot purchase property rights to the person but only to an hour of his labor, leading them to seek to maximize short-run work effort and output at the expense of the employee's long-term health and stamina (ibid.: 42). Often, as a result, workers' physical and human capital was rapidly depleted, leaving them "on the scrap heap" by age 40. A third example stems from the indivisible nature of firm's employment practices, per Slichter's (1931: 655) observation that a minority group of employees in a firm will often be unable to trade-off more amenable work conditions for lower wages because the firm cannot provide (as an example) different levels of accident prevention to different groups of workers within the same plant. Finally, due to bounded rationality and imperfect information, it is impossible for the worker to write a fully contingent employment contract that specifies the full range of present and future working conditions (Commons and Andrews, 1936). As a result, many terms and conditions of employment are open-ended and, once employment has commenced, subject to different interpretations and sometimes opportunistic change by the employer.

For these and other reasons, even early critics of trade unionism, such as W.H. Hutt (1980: 74), concluded that competitive determination of working conditions is sub-optimal — declaring that these matters "are not adequately determined by the market process — hours and work conditions . . . are best decided collectively." In a similar vein, Millis (National Labor Relations Board, 1985: 1553) observes, "the great majority of wage-earners are employed under such conditions that they must act in concert with reference to wage scales, hours, and working conditions if they are to have a reasonably effective voice as to the terms on which they shall work."

IV. *Theory of Unions and Collective Bargaining*

I now examine in more detail theoretical propositions the early institutionalists advanced about trade unions and collective bargaining. It must be kept in mind, however, that their ideas on these matters evolved over time, as is amply illustrated in the next section of this paper. Indeed, it is a basic plank of the institutional paradigm that there are few economic theories that are "timeless" in their application since all operate in a constantly changing institutional and cultural context (Kaufman, 2004c).

It was observed, first, that unions vary considerably in their aims and how they achieve them. Perhaps the most famous categorization is by Hoxie's (1917), who distinguishes five types: revolutionary, business, uplift, predatory, and dependent. The dominant type of unionism in the United States was business unionism, and the institutionalists gave most attention and clearly sought to promote this type. Unions in other countries, such as France and Italy, tended to eschew workplace collective bargaining for methods of class struggle and "direct action" (sabotage, general strikes) — tactics that tend to put them outside the realm of economic analysis (even broadly defined) and at odds with the institutionalists' normative goal of preserving social order through negotiation and compromise.

Second, they conceived of collective bargaining as a method of market and workplace rule making and regulation. In this respect, the justification for trade unions and collective bargaining turns on the same sort of generic considerations that apply to any form of social and economic regulation — does it promote efficient use of resources and valued human/social goals?

Third, as an agency of rule making and regulation, collective bargaining has two broad functions (Slichter, 1939; Kaufman, 2000a). The first is an economic function aimed at improving the terms and conditions of employment. The emphasis is on use of the union's market power to raise wages and improve hours, benefits, job security, and working conditions. This function matches closely F&M's "monopoly face." In this regard, it was clear to the early institutionalists that in their economic function unions were monopoly-like organizations. Slichter (1931: 354) observes, for example, that "trade unions, of course, are monopolies, or at least attempts to create monopolies," while the Webbs (1897: 816) note, "Powerful Trade Unions show no backwardness in exacting the highest money wages that they know how to obtain."

Commons (1950: 59) suggests, however, that the better way to view unions is not as monopolies *per se* but as cartels. Unions do not own and sell their members' labor but set a uniform market price. Unions are also like cartels in that the cartel leaders must devise a pricing (and entry) policy that promotes the survival of the organization and satisfies the interests of the individual members. This task necessarily involves a political process within the organization, leading the institutionalists to view unions even in their economic function as necessarily a form of political organization (or "industrial government") operating in an economic environment (Commons, 1921b; Ross, 1948). Thus, Slichter (1931: 658) notes that, "unions are democratic organizations and their policies necessarily reflect the desires and the interests of their members," while the Webbs (1897: 836) seem to anticipate the median voter model (described in my earlier theory paper) with their observation that "whenever the association contains several distinct classes of workers . . . any scheme of equalized finances and centralized administration produces, even with the best of democratic machinery, neither efficiency nor the consciousness of popular control, and hence is always in a condition of unstable equilibrium." With regard to the economic goals of unions, some of the institutionalists were willing to follow Samuel Gompers and take the goal as "more." Commons (1913: 121), however, suggested a three-fold typology of union goals: wealth redistribution, joint aggrandizement, and protection.

Unions also have a second face — a political function in which they use rule making and regulation to introduce joint decision-making, worker participation and representation, and due process into firms' governance structures. This function is a generalization of F&M's "voice face." Commons (1921b), for example, observed that firms are governance structures or a form of industrial government and, as such, have leaders and "citizens," a body of written and unwritten laws and rules that define rights, duties, and procedures, and an executive, legislative, and judicial process for proposing, enforcing, and interpreting workplace rules. The object of the governance face is to transform the firm from one of industrial monarchy and "divine right of capitalists" to what Commons called "constitutional government in industry," the Webbs (1897) called "industrial democracy," and Slichter (1939) called "civil rights in industry."

Fourth, also like F&M, the early institutionalists recognized that unions have both negative and positive effects on economic efficiency and social welfare (to be detailed shortly). They therefore evaluated unions using a benefit/cost analysis similar to that proposed by F&M. Writing in 1926, for example, economist Warren Catlin (p. 316) observes:

> Unionism, as a whole, centering in collective bargaining, is, of course, to be judged according to its effectiveness in meeting the evils of unemployment, overstrain, industrial accidents, occupational disease, inadequate wages, wealth-concentration, and inequality of opportunity, which have been presented as the chief planks in the indictment of labor against modern capitalism. The defenders of unionism need not be expected to demonstrate that it is also positively beneficial and advantageous to employers as a class, desirable as that might be; but they are called upon to show that it does tend to restore balance in the industrial world, and is a substantial help to the workers without doing material injustice to employers or injury to the public. The good that it does one of the three parties must not be counterbalanced by the harm it does to the other two.

Fifth, using this standard, it is noteworthy that American labor economists of this period — even from the University of Chicago — were near unanimous in their belief that the nation would benefit from a higher level of unionism than existed before the NLRA. Representative is this statement made by Millis in his Congressional testimony on the NLRA (National Labor Relations Board, 1985: 1557): "I, therefore, maintain that organization [trade unions] and intelligent and honest collective bargaining has a sound basis in economics." Also providing testimony was Paul Douglas (the period's foremost analytical labor economist and, with Millis, a member of the Chicago faculty), who declared to the same Senate committee (p. 239), "I should like to submit that the organization of labor should be welcomed instead of feared. We might get along with purely individual bargaining in a period of small-scale competitive capitalism. When large-scale enterprises appeared, individual bargaining, even under competition became inadequate."

Finally, the early institutionalists also emphasized the valuable role of unions in giving working people a voice and representation in the larger political process of the nation. In their view, business interests dominated and often corrupted the legislatures and courts of that period, leading Veblen (1904: 286) to state that American democracy "means, chiefly, representative of business interests." In a similar vein, Baker remarks (1904: 378), "They [workers] see the railroad corporations and similar combinations getting class representation in our legislatures, and even higher up, in our Congress, by bribery and purchase; why should not the union men vote for what they want? At least it is honest." Thus, unions provide not only countervailing power and voice in the labor market and internal firm governance but also in the larger political arena.

Having set out the general principles, I turn to a more detailed look at the economic and political faces of unions and the benefits and costs that go with each.

The Economic Function. As previously indicated, the early institutionalists viewed unions as akin to labor market monopolies or cartels. They further recognized that in the "perfect" market of orthodox theory the exercise of this monopoly power by unions would harm efficiency and social welfare. In this spirit, Millis notes in his Congressional testimony on the NLRA (National Labor Relations Board, 1985: 1553–54):

> Of course if there were perfect mobility of labor, keen competition for labor, and no concerted control of wages and hours by employers, the situation would be substantially different from what is has been and the case for collective bargaining would be less conclusive in modern industry. I am aware that many of my academic brethren assume that these conditions just mentioned are generally true, and reason that in the absence of such friction in the market, wages, hours, and all the rest of it rather steadily adjust themselves to what industry, and consumers, should and can bear.

But then he notes (pp. 1553–54),

> The truth, as I see it, is . . . that the competitive demand for labor, while important, does not go far in protecting the workers against long hours, excessive overtime, fines, discharge without sufficient cause, and objectionable working conditions. . . . One is thus driven to the conclusion that . . . hours of work and conditions of work — things which intimately concern workmen, are best decided collectively — through legislation or through collective bargaining, and some of them are not easily subject to legislative control. This is particularly true of a reasonable degree of security of tenure. The case for collective bargaining is only less strong with respect to wages.

Five aspects of this quote deserve comment. First, Millis justifies unionism on grounds that it protects workers from various evils, such as excessive hours and objectionable working conditions. Second, he acknowledges that competitive theory leads to a negative verdict on the economic effects of unionism, but he sets aside this verdict because the theory does not capture the numerous "frictions" that impede the competitive process. Third, he points to problems with the "competitive demand for labor" as the crucial weak spot in the orthodox theory of labor markets. He acknowledges that the competitive demand for labor provides some protection for workers, but claims that it is inadequate. Fourth, he states that the case for collective bargaining is strongest for the determination of working conditions and "less strong" for determination of wages. This conclusion is, in broad outline, parallel to the viewpoint of F&M. Finally, for reasons discussed later in this chapter, it is useful to note that Millis' testimony in favor of collective bargaining was made in 1935 — six years into the Great Depression.

The problems with the competitive demand for labor have already been described — administered wages, imperfect/asymmetric information, segmented markets and discrimination, costs of mobility, monopsony (broadly defined), public goods and externalities, and (most importantly) lack of jobs and unemployment. These labor market imperfections, in turn, lead a system of individual bargaining to yield less than competitive wage rates and other terms and conditions of employment contract. The fundamental rationale for the exercise of unions' monopoly power, therefore, is that it provides a defensive, countervailing form of power — it balances the employers' superiority of power in the market and protects the worker from exploitation and unreasonable conditions. Thus, Slichter (1931: 365) states of monopolies, "The monopoly may succeed in raising the price and even raising it substantially, but this does not necessarily mean that the price is unreasonably high." He goes on to observe, "The best examples of monopolies which merely eliminate cutthroat competition are found among labor unions." A similar perspective is offered by Douglas (1934: 94–95): "the forces which operated against labor's receiving its marginal product were stronger than those which tend to prevent capital from securing its margin. An increased activity by the state in behalf of labor, or further unionization on the part of the wage-earners themselves, would have helped to redress this balance [of bargaining power]."

Unions in their economic function also bring numerous other benefits. Many promote greater efficiency and conservation of the nation's human resources, while others are valued for the humanistic goals earlier described. Among the most important benefits mentioned by the early institutionalists are the following (every item can be found in Millis and Montgomery, 1945; Slichter, 1931; Lester, 1941):

- *Taking Wages Out of Competition.* If unions can organize all competing firms, they can use collective bargaining to establish uniform labor costs across the industry (what the Webbs called "the Device of the Common Rule" and the "Standard Rate") and thus take wages out of competition. Doing so promotes the market stabilization goal because it protects wages and labor standards from downward "nibbling" from lower cost or more desperate competitors in product and labor markets (Commons, 1909). The standard rate can then be gradually raised over time in line with the increase in productivity and industry profits so workers share equitably in the fruits of progress.

- *Promote Efficiency in Other Areas.* Taking wages out of competition also transfers the force of competitive rivalry to other areas, such as managerial efficiency, product quality, research and development, and human capital investment. Firms are also induced to modernize and update their capital. Another positive effect of a union floor on labor cost is that it drives the least efficient firms out of business and allows a reallocation of capital, labor, and output to their more efficient competitors.

- *Increase Employee Security.* Security is a highly valued "good" for workers, in part for its own intrinsic value and in part to ensure that workers have income to cover ongoing fixed and variable living costs. Competitive markets not only do not provide the "optimal" amount of security for workers, they often represent a daily threat to security — particularly in the real world of scarce jobs and costly, time-consuming search. Unions increase job security in part by making it more expensive/difficult for firms to layoff workers and in part by establishing formal rules (or job property rights) about how layoffs and new job opportunities are distributed.

• *Increase Human Capital Investment.* Unions tend to change labor from a variable to a quasi-fixed cost for the firm. Since workers are thus less likely to turnover and have longer job tenure, firms have greater incentive to invest in on-the-job training and other forms of human capital. For this reason, and also because of higher union wages, organized firms are also able to "skim the cream" of the work force and get the higher quality workers.

• *Standardize the Wage Structure.* Studies of local labor markets and firms' internal wage structures by the early institutional economists revealed that competition did not set one uniform "going wage" like theory predicts but instead permitted a wide range of seemingly haphazard and often discriminatory wage differentials to co-exist even among workers in the same plant doing the same job. A benefit of unions was to standardize and formalize the wage structure.

• *Protect Employees from Overwork.* Employees have to maintain the value of their physical and human capital over a 30–40 year time horizon, and often their financial needs grow over time for family reasons. Employers, however, typically have a shorter time horizon and, particularly for wage workers who are in plentiful supply, want to get from them as much work as possible, even if this means rapid depreciation of the worker's capital (since the workers can be readily replaced). Unions can establish reasonable workloads and work speed, thus preventing this wastage of the nation's human resources.

• *Promote Greater Employee Work Effort.* Paradoxically, unions can also contribute to greater output by creating conditions that promote greater employee work effort. For example, when employees believe they are not being treated fairly, they hold back on work effort and even sabotage production. By establishing fair treatment in the plant, unions help create a positive work environment and promote greater work effort. Likewise, in piecework production workers deliberately hold back, fearing maximum effort will later cause management to cut the piece rate. By protecting piece rates from unilateral change, unions remove this problem.

• *Reduce Turnover.* In nonunion firms, employees who are dissatisfied with conditions and treatment at their place of work are often afraid to speak up or never get their concerns addressed, leading to high turnover rates and numerous forms of additional cost (hiring, training, search, etc.)

• *Threat Effect.* The fear of being organized causes many nonunion firms to pay more attention to their employees' needs and interests than otherwise, leading many to give their workers more competitive wages and implement personnel procedures more efficiently and fairly.

• *Protect High-Road Employers.* By placing a floor under competition, unions protect "high-road" employers (progressive firms with above-market pay and benefit programs) from the competitive threat posed by "low standards" firms that seek competitive advantage through low pay and skimping on work conditions.

• *Promote Aggregate Demand.* Many trade unionists and early institutional economists believed that a capitalist economy is prone to under-consumption. They saw unions as a way to promote purchasing power and full employment by transferring above-normal profits (monopoly rents) from owners of capital to workers, given that the latter have a higher propensity to spend. Failure to correct this imbalance results in aggregate supply growing faster than aggregate demand, eventually bringing about a glut in product markets, a deflationary slump, and risk of destructive competition. In the 1940s, the positive aggregate demand effect of unions evolved into the doctrine of "social Keynesianism" (Kaufman, 1996).

The early institutionalists also saw that the economic function of unions had a number of downsides. While many of the benefits of unions accrue in the short run, a number of the costs only become manifest in the longer run. Some of the most important negative economic consequences of unions are the following.

• *Monopoly Wage Effect.* In the short run, market frictions and unequal bargaining power cause wages for many workers to be depressed below the competitive, full-employment level. Union wage increases are thus defensive or "monopsony reducing" (per the terminology of my earlier theory paper). When unions have brought wages to a competitive level or perhaps modestly above, they should stop their upward push — per the stricture of the Webbs (1897: 738–89), "When the percentage of the workmen out of employment begins to rise, . . . it [the union] must necessarily check any further advance." [Millis and Montgomery (1945: 374) suggest that union wage policy should aim to place the wage slightly above the marginal value of labor and then let induced productivity growth close the gap.] As the institutionalists recognized, however, unions seek to gain the maximum price for labor and, hence, their drive for joint aggrandizement (or "more") may over the longer run push wages and labor costs significantly above the competitive level. When this occurs, unions shift from a defensive, protective mission to an offensive, aggrandizing one. It becomes "a cold business proposition" aimed at "controlling the market," "crushing competition," and "mulcting the public" (Baker, 1904). The most important factors making possible union monopoly wage effects, according to the institutionalists, are complete organization of the employers, control of the supply of labor, a strategic position in the industry, and supportive government.

• *Restriction of Labor Supply.* The institutionalists noted that unions could raise the wage rate by using bargaining power to either set a standard rate or restrict the supply of labor (Webbs, 1897). The former sets a wage floor above the market equilibrium rate (similar to a minimum wage law) while the latter raises the wage by shifting the labor supply curve to the left. They favored the former, as practiced by industrial unions, because it raises the plane of competition without otherwise interfering with market processes and efficient resource allocation. Most unions of this period, however, were craft unions which sought to limit the supply and utilization of labor through numerous restrictive practices, per Hansen's observation (1922: 523): "No one is more firmly convinced that a commodity must be scarce in order to be dear than are trade unionists." These restrictive practices were viewed as harmful to efficiency and thus to be condemned — although in muted terms given the view of the institutionalists that they were often necessary to promote the larger good unions accomplish or are no worse than the restriction of output imperfectly competitive firms use to raise product price.

• *Wage Inequality.* The early institutionalists concluded that unions reduce wage dispersion among organized production workers in a plant, but in another respect they worsen income inequality. Most unions of this period were craft unions, and they largely represented skilled workers who tended to be among the higher paid before unionizing (the "aristocracy of labor"), and because of their skills and strategic position in the production process they frequently were able to use collective bargaining to force up wages to relatively high levels. In this respect, unions worsened income inequality between the highly paid skilled workers and the mass of unskilled and semi-skilled workers who remained largely unorganized.

• *Restrict Productivity.* Unions also restrict productivity and efficient plant operations in a number of ways. Commons (1913: 124) observes that "a union's purpose is necessarily and designedly restrictive. It is not designed to increase production — its purpose is to tie the employer's hands." As he elsewhere notes (1913: 122), it is possible that unions nonetheless lead to a net increase in productivity but it is "because they set other forces at work to overbalance their restrictions." Whether the direct negative effect on productivity of union restrictions outweighs the indirect positive effect (such as from increased managerial efficiency) is an empirical (and dynamic) issue, and the early institutionalists found evidence on both sides. But certainly unions, and particularly craft unions, often forced on employers numerous inefficient practices, including "make-work" requirements, restrictions on the introduction of new machinery and technology, and narrow and rigid job classifications. The adversarial climate that often accompanies collective bargaining also works against productivity.

• *Raise Cost and Reduce Profit.* Even if unions raise productivity, in most cases this cost saving is more than offset by other areas of cost increase, such as higher wages. As a generalization, therefore, unionism raises production costs and product prices and reduces profits. In a number of cases, these negative effects are relatively modest, and some lost profit represents merely a redistribution of monopoly rents to labor. However, in some industries, such as coal and apparel, the union effect on cost and profit is quite large.

• *Reduce Employment and Capital Investment.* Slichter (1939) observes that for most unions their bargaining power exceeds their organizing power. Furthermore, they tend to underestimate the long-run elasticity of demand and allow the internal political pressure of the rank and file for "more" to unduly ratchet up wages. The result is that over time unionized firms develop higher cost structures and lower margins of profit, while simultaneously a sector of lower cost nonunion firms (or plants) emerges and grows. The latter partly arises from "capital flight" and "runaway plants" as companies dis-invest in their union facilities and build new, unorganized facilities in other states or countries. Unless the firms are locked into a geographic area (say by mineral deposits or port sites) or the unions can organize the new firms or gain regulatory restrictions on entry, the union sector of firms is likely to shrink over time, as is employment and union membership.

• *Restrict Management.* Although related to productivity and cost, the negative effect of unions on the efficiency and flexibility of management was highlighted for separate attention by the early institutionalists. As already noted, in many cases before unionization the management of an enterprise suffers from inefficiency, slack, and poor leadership. But after unionization a separate set of evils appears. Unions restrict and impede management in numerous respects, such as rigid personnel practices (e.g., promotion is determined solely by seniority, inability to terminate low performers), slower decision making and ability to respond to market developments, and insistence on "working to the contract." Unions also politicize internal firm governance and sometimes management loses effective control of the work force.

• *Strikes and Boycotts.* Collective bargaining cannot work without the right to strike and occasional exercise of that right, along with other pressure tactics. Believing in the overall utility of collective bargaining, the early institutionalists accepted strikes and boycotts as a reasonable price to pay to promote equality of bargaining power and private resolution of industrial disputes. They also recognized, however, that strikes and boycotts impose costs on the public and the economy and sometimes are used irresponsibly by unions. Sympathy strikes, jurisdictional strikes, and secondary boycotts all have large "external" effects, and building trades unions in particular had a propensity to engage in internecine battles over job rights that would frequently disrupt production and inflate costs.

The Governance Function. The early institutionalists also developed a second functional explanation for unions that was political in nature and viewed unions as a part of the governance structure of industry and a vehicle for promoting democracy in the employment relationship.

According to Commons, every formal organization is a "government." In this vein he states (1950: 40), "each kind of collective action is a government, differing in the kind of 'sanctions' employed to bring the individual into conformity with the rules." The highest form of government in society is the political government that claims sovereignty over the land and people and the right to use the sanction of physical violence to enforce the working rules and defend the state against enemies. Below the nation state are a host of other organizations, including corporations, unions, churches, and political parties, forming a diffuse network of jurisdictions and power centers. From an analytical point of view, all such organizations can be viewed as a pluralistic set of governments for each is the product of collective action, is governed by working rules that specify authority relations and the distribution of rights, liberties, duties, and exposures, and employs sanctions to enforce the working rules (Commons, 1950: 75).

In the economic sphere the most important organization is the firm. A firm is a governmental entity since it claims sovereignty over scarce resources, constructs and administers working rules that govern what its members may and may not do, and enforces these rules through various sanctions. Like a political government, a firm also contains an executive, legislative, and judicial process through which the working rules are created, applied, enforced, and interpreted. Employees, in turn, are viewed not just "hired hands" but citizens (or subjects) of the industrial government.

When the institutionalists looked at the governance structures in the political realm of American life in the early part of the twentieth century, they saw the gradual spread and development of representative democracy. While the political process was often dominated by business interests and public administration suffered from too-frequent incompetence or corruption, the government was nonetheless in broad outline run "by the people, for the people, and of the people" and provided effective law and order in civil affairs. When they looked at the economic sphere of American society, however, a far different and less positive picture emerged.

Commons (1918, Vol. 2: 519) characterized the industrial system in the late 1800s as prone to "despotism and anarchy." Anarchy exists, he states, when the strong rule the weak through the threat of physical harm and people's life and property can be taken without notice or compensation. This situation aptly characterized the laissez-faire labor market of that period, he claims, since the worker had no protected property right in his only source of income — the job — and thus a person's livelihood could be confiscated at a moment's notice through the unilateral action of either the strong (the employer) or the desperate (an unemployed job seeker). Despotism exists, in turn, when the people in control of a government exercise unrestrained power over the citizens and use this power in an exploitative and unjust manner for personal gain at the expense of the common good. Despotism also characterized the labor market of the late nineteenth–early twentieth centuries, the institutionalists thought, since employers were given nearly unrestrained rights to run their enterprises as they saw fit. While the defenders of competition and freedom of contract argued that workers had effective protection through the ability to quit one employer and seek work at another ("voting with their feet"), the institutionalists saw this protection as a weak and often ineffective one.

On the defects of industrial anarchy and autocracy the institutionalists built their case for industrial democracy. As noted in other studies (Derber, 1970; Dickman, 1987; Lichtenstein and Harris, 1993), proponents of industrial democracy at the turn of the century defined it in a number of disparate ways, ranging from profit-sharing to government ownership of the means of production. The institutionalists took a middle-of-the-road position. For them, industrial democracy has four key elements.

The first element is some method for voice, participation, and representation of group (or "stakeholder") interests in the respective unit of industrial government. Thus, Commons states (1919: 40), "Representative democracy in industry is representation of organized interests" and (p. 43) "it is the equilibrium of capital and labor—the class partnership of organized capital and organized labor, in the public interest." Democracy, in this view, requires that workers as "citizens" be given a voice in the determination of the working rules of the enterprise and in the manner the working rules are administered.

The second key element in industrial democracy is to substitute "rule by law" for "rule by men." Rule by law means that the working rules of the industrial government have to be set forth in a written document (a "constitution") and all stakeholder groups must abide by the laws of the workplace. This aspect of industrial democracy is captured in these words by Leiserson (1922: 75), "Whether carved on stone by an ancient monarch or written in a Magna Carta by a King John, or embodied in collective agreement between a union and employer, the intent is the same, to subject the ruler to definite laws to which subjects or citizens may hold him when he attempts to exercise arbitrary power."

The third key feature of industrial democracy is that an impartial judicial procedure be available to all parties when disputes arise over interpretation or application of the working rules. This feature goes under the name *due process of law*. Speaking of industrial constitutions, Commons (1919: 108) states in this regard, "Like the Constitution of the United States, the agreement has become a 'government of law and not of men.' A man is not deprived of his job without 'due process of law.' This is the difference between democracy and autocracy, and the reason why the machinery of democracy is complex and that of autocracy is simple."

The fourth key element of industrial democracy for the institutionalists is a reasonable balance of power between the employer and worker. Power, to the institutionalists, is ability to influence, and if one party to the employment relationship has a preponderance of power, it is likely that it will be used in ways that are both arbitrary and onerous. Since in their view the employer normally has the power advantage over the individual worker, some method must be found to equalize power if mutual discussion and compromise are to take the place of dictation and unilateralism in the workplace. The method the institutionalists advocated was creation of collective forms of organization that represent workers, such as trade unions, political parties, professional associations, and employer-created representation bodies. Thus, Commons (1919: 43) states, "Only through organization can the modern industrial worker . . . have an effective voice either in industry or government. . . . In his individual weakness he gains greater power and liberty through organization."

Given these key elements of industrial democracy, the next issue confronting the institutionalists was how to operationalize it. Not unexpectedly, their first choice was collective bargaining through trade unions. With regard to the representative function in industrial government, the trade union appeared to be ideal since its purpose is to represent workers, and its operation and leadership are controlled by the worker members. Likewise, the institutionalists saw in the process of collective bargaining a direct parallel to the legislative function in political government. Commons described the negotiating meetings of the employers' and workers' representatives as an "industrial parliament," the trade agreement as the "constitution" of the industrial government, and the myriad of rules and regulations hammered out by the parties governing the day-to-day utilization of labor as the "common law" of the shop. Trade unions also brought due process of law to the workplace by requiring that employers abide by written standards of conduct, through establishment of a formal dispute resolution process that protected workers rights to a fair trial, and ensuring that in case of unresolved disputes a decision is rendered not by the employer but by a neutral third party. Sumner Slichter (1941: 1) refers to this adjudicatory function of collective bargaining as "industrial jurisprudence." Finally, trade unions also equalized the bargaining power between the firm and workers.

Clearly, the political dimension of unions provides an entirely separate rationale and justification for collective bargaining. In certain respects it also has greater public appeal. In their economic function, unions necessarily accomplish their purpose through measures that abridge and curtail competition and freedom of contract — principles that are viewed favorably by most of the public as bedrock American values. The early institutionalists sought to shift the terms of the debate over union power from a focus on "competition vs. monopoly" to "democracy vs. autocracy." Since Americans also instinctively favor democratic forms of governance over authoritarian forms, the institutionalists saw the governance (industrial democracy) rationale for unions as an effective way to give union power a positive public purpose (Dickman, 1987).

Although predisposed to favor unionism and collective bargaining on grounds of industrial democracy, the institutionalists also recognized that in reality the balance sheet is more checkered. In particular, they saw that unions themselves were frequently undemocratic and, sometimes, corrupt. Commons (1919: 122) states in this vein, "we know that organized labor is as likely to be as arbitrary as the employer if it has the power. . . . In the name of democracy labor may be as despotic as capital in the name of liberty." Likewise, Hoxie (1917: 177) observes, "unionism in its own organization and conduct is hardly to be called democratic." Many unions of that period also had very restrictive and discriminatory membership policies aimed at rationing high-paying jobs among a select few. Many union constitutions of the period contained a formal bar on admission of black workers, while many craft unions were essentially "closed" organizations with insiders protected by high initiation fees and restrictive apprenticeship requirements. In this regard, no aspect of the "monopoly face" of unions attracted more public disapproval and employer resistance than the practice of the "closed shop." The closed shop — an agreement that the employer will only hire and employ members in good standing of a particular union — was widespread before being banned in the Taft-Hartley amendments to the NLRA in 1947. Unions claimed that the closed shop protected them from "free riders" and the substitution in production of nonunion workers for union workers, while critics claimed it gave unions a virtual monopoly on the supply of labor to the firm and a potent way to control both employers and the union rank and file. The early institutionalists took a conflicted position on this matter — admitting the defects of the closed shop in principle and practice but nonetheless condoning it as a necessary device to provide unions bargaining power and organizational stability (Slichter, 1939). There was, finally, considerable pockets of corruption in the labor movement, per Cooper's (1932: 654) observation, "particularly in large cities, where unionism reaches its greatest strength, shady practices involving the racket and accompanying graft flourish."

V. *Labor Reform Strategy*

Having described the early institutionalists' rationale for collective bargaining, the final step is to situate unionism and collective bargaining within their larger strategy of labor reform (Kaufman, 2003). The agenda for reform is the solution of the numerous labor problems previously described. To accomplish this task, the institutionalists developed a reform strategy with three major goals.

The first goal is stabilization of product and labor markets to smooth disruptive fluctuations in production and employment, prevent excess supply conditions from dragging down labor standards, provide workers with secure, full-time jobs, and eliminate what the institutionalists (Commons, 1921a) saw as the most important problem of capitalism — unemployment. The second goal is equality of bargaining power between workers and employers. The aim is to redistribute property rights, balance endowments, and use countervailing forms of market power to make competition in labor markets fair and balanced, creating a "level playing field" in the determination of the terms and conditions of employment. The third goal is industrial democracy or "constitutional government in industry." The aim is to bring into the industrial sphere basic democratic practices enjoyed by workers in the political sphere, such as a written agreement or "constitution" so "rule by men" is replaced by "rule by law," opportunities for participation and representation (or "voice") in the determination and enforcement of workplace rules, and the protection of due process in the resolution of disputes and administration of discipline. In the background was a fourth, superordinate goal — to preserve the basic outlines of the American system, and its foundation on private property, a market economy, and representative political government, from overthrow on account of class struggle between Capital and Labor and the correlative appeal of Socialism, Fascism, and Communism. As Commons (1934b: 143) put it, his goal was "to save capitalism by making it good."

The next part of the institutionalists' labor reform strategy was a set of four methods which collectively and interactively could be used to accomplish the goals. The four are: trade unionism and collective bargaining, legal enactment in the form of protective labor law and social insurance programs, progressive personnel/human resource management, and macroeconomic stabilization and full employment through monetary, fiscal, and income-redistribution policies. A fifth instrument, but one outside the scope of this discussion, is a more general program of institutional and political reform to integrate Labor as a class into American society and make it an equal partner in the economic enterprise — that is, to change it from being an exploited "outsider" to a justly-treated "insider."

Given these general principles, the interesting question is: What is the proper scope and role for trade unionism and collective bargaining as instruments of labor reform? The answer given by the early institutionalists evolved in four phases from 1900 to the mid–1930s, reflecting their effort to adapt and improve their labor strategy in light of new events and ideas (Kaufman, 2003). Space constraints limit me to only indicate the main outline and conclusions.

Phase I of the institutionalists' labor reform strategy starts in the late 1890s and lasted most of the next decade. Their primary instrument they promoted for improved labor outcomes was a form of bilateral monopoly established through industry-wide collective bargaining between an employers' association and a national union. Industry-wide collective bargaining took wages out of competition, thus stabilizing labor markets, established equality of bargaining power, and introduced constitutional government into industry. The other three instruments for reform received little-to-no emphasis, largely because the Supreme Court continually declared protective labor laws unconstitutional and progressive personnel management and counter-cyclical macroeconomic stabilization policies had not yet been developed.

The beginning of Phase II overlapped with the end of Phase I (roughly 1907–1909) and extended to about 1917. In Phase II the institutionalists introduced a second instrument, legal enactment, in the form of protective labor laws and social insurance programs (e.g., minimum wages, unemployment insurance). The former was intended to establish a floor of labor standards across the market; the latter was intended to insure workers and their families against risks to their employment and income (Moss, 1996). Phase II developed in part because the Supreme Court in several rulings approved protective labor laws for women, children, and hazardous trades and in part because the institutionalists realized that industry-wide collective bargaining would remain confined to a small portion of the labor market. Thus, the preferred instrument for stabilizing markets, equalizing bargaining power, and introducing industrial democracy remains unionism and collective bargaining, but legal enactment is used as a complement where unionism is largely absent. The other two instruments still wait to be developed.

In Phase III, covering the years 1918–1931, progressive management ("Welfare Capitalism") and macroeconomic monetary and fiscal stabilization are added to the mix of instruments. Although the place of legal enactment in the institutionalists' labor reform strategy is carried over and even strengthened from Phase II, progressive management and macroeconomic stabilization represent partial substitutes for unionism and collective bargaining and thus the scope and role of the latter in the labor reform strategy are reduced. Counter-cyclical monetary and fiscal policies are now the major device to stabilize product and labor markets and maintain full employment and a reasonable balance in bargaining power. [Although little known today, Commons was a recognized authority on monetary policy, helped found the National Bureau of Economic Research to study business cycles, served as president of the National Monetary Union, and advocated in writings and testimony to Congress that the Federal Reserve practice a price stabilization monetary rule (Whalen, 1993). He and fellow institutionalists also advocated additional public works spending in economic downturns.] Likewise, starting about 1918 a number of progressive companies started to pioneer a new employee relations model subsequently called "Welfare Capitalism" (Jacoby, 1997; Kaufman, 2001). Components of this model were the business function of personnel management, an array of "welfare" (benefit) programs, incorporating principles of "human relations" into management, and a nonunion form of employee representation to provide voice, participation, and equitable dispute resolution. This model of progressive management also helped stabilize labor markets and equalize bargaining power since the employers, in an effort to promote employee goodwill and a "unity of interest," voluntarily provided above-average wages, employment conditions, and job security. Likewise, the institutionalists came to see the employee representation plans as an alternative form of voice and constitutional government in industry and regarded the better run plans as a suitable substitute for union voice — in some respects even superior since they avoid the adversarialism, restrictions, and craft fragmentation of many unions (Kaufman, 2000b).

Given the availability of more policy instruments, the role of trade unionism and collective bargaining in solving labor problems is narrowed and reduced in Phase III. As now envisioned by the institutionalists, the labor market has something like a bell-shaped distribution of employers ranked by the quality of their employment practices, with a group of "high road" Welfare Capitalism employers in the right-hand tail, a group of "low road" employers (a heterogeneous group with disproportionate representation of smaller, undercapitalized firms; companies in "secondary" labor markets; and companies in competitive, labor-intensive industries) in the left-hand tail, and a large group of employers bunched to the left and right of the mean. The entire frequency distribution shifts to the right or left with variations in aggregate demand such that a state of full employment considerably shortens (but never eliminates) the left-hand tail of "bad" employers. The role of collective bargaining (complemented by protective labor legislation) is fivefold: first, to truncate the lower part of the left-hand tail of the distribution of employment practices either by raising standards or forcing these employers out of business (implying some employment loss from union wage gains or a minimum wage law is not necessarily harmful to efficiency and welfare); second, to take wages out of competition in certain "sick" industries (e.g., coal, apparel) through industry-wide collective bargaining so the pressure of excess capacity and destructive competition did not drag down labor standards below the social minimum; third, to use the "threat effect" to pressure unorganized firms (especially those below the mean) to improve their employment practices; fourth, to bring "constitutional government in industry" to firms anywhere in the frequency distribution that use punitive, harsh, or unjust management methods; and, fifth, to gradually shift up the frequency distribution over time through bargaining gains (and legislated increases in minimum labor standards) and the induced improvements in productivity from greater managerial efficiency and other such sources.

On the other (right-hand) side of the of the frequency distribution, the "high-road" employers — typically progressive nonunion firms — define "best practice" in employment relations at a point in time and gradually push forward the leading-edge of employment practices over time. Among these employers collective bargaining typically has no net contribution to make to social welfare, per the comment of Commons (1921a: 15) that "Labor has not come into existence at all to deal with that first class of employers [the high-road employers]. . . . It has come in solely in order to use coercion with . . . those who need it because they will not or cannot meet new conditions."

The Great Depression and New Deal of the Roosevelt administration ushered in Phase IV of the institutionalists' labor reform strategy. As they saw it, monetary stabilization had dramatically failed, leading to mass unemployment and the reappearance of labor problems on a scale and scope not seen for several decades. With mass unemployment, the frequency distribution of employers shifted dramatically to the left. By 1932 all but the remnants of the "high-road" employers of the 1920s were slashing wages, eliminating job security, and reverting to a harsher regime of labor management. Suddenly, practically every industry was "sick" and wages and labor standards were ratcheting downwards under the pressure of destructive competition. Thus, just as monetary stabilization had appeared to fail, so had progressive management, and neither appeared to offer a way out of the debacle. Since large-scale pump priming through Keynesian-style fiscal policy had not yet been popularized [Keynes' *General Theory* was not published until 1936], the Roosevelt administration and the institutionalists were left with two remaining instruments — legal enactment and trade unionism. They combined these, with a version of European corporatism and cartel policy, to create the National Industrial Recovery Act (NIRA), the New Deal's central piece of economic recovery legislation (Hawley, 1966).

To stanch destructive competition and stabilize product markets, the NIRA encouraged firms to form industry associations and collectively set price and production quotas through negotiated "codes of fair competition." The same was to be accomplished in labor markets by a combination of much-expanded collective bargaining (encouraged by the NIRA's Section 7a guarantee of the right to organize) and minimum wage and maximum hour provisions. Expansion of collective bargaining considerably beyond its Phase III domain was now seen as desirable for three other reasons. The first was to equalize bargaining power, since the Depression tilted the playing field sharply in favor of employers, and the NIRA paradoxically then compounded the problem by encouraging firms to collude in the setting of wages and hours. The second was to restore full employment through income redistribution. Most of the institutionalists and New Dealers (Commons excepted, who still held a monetary theory of the Depression) thought the cause of the Depression was underconsumption resulting from the 1920s drift toward greater income inequality, so they sought to promote recovery by using collective bargaining to redistribute income from profits to wages and thus expand purchasing power and aggregate demand (Kaufman, 1996). The third was to spread industrial democracy across labor markets, reflecting the widespread perception that employers had treated labor with considerable injustice and harshness.

The NIRA was declared unconstitutional in 1935, but soon thereafter three new pieces of labor legislation were enacted that collectively implemented the institutionalists' Phase IV labor reform strategy. The first was the National Labor Relations Act, which in the Preamble attributed the Depression to labor's unequal bargaining power and therefore declared it in the public interest to "encourage the practice and procedure of collective bargaining." The Act also discouraged alternative forms of employee voice by banning employer-created employee representation plans. The second law was the Social Security Act, which enacted old-age pensions and unemployment insurance. The third law was the Fair Labor Standards Act, which enacted minimum wage, maximum hour, and child labor standards. Together these laws sought to solve the massive labor problems unleashed by the Depression through a comprehensive program of institutional reform. Because monetary stabilization and progressive management had proven so disappointing, the institutionalists had in effect returned to the Phase II version of their labor reform strategy and used trade unionism and legal enactment as the instruments to bring fairness and balance to wage determination, economic security to workers and their families, democracy and voice to the governance of the workplace, and full employment to the macroeconomy. These policies clearly resonated with the American work force and public, because union membership and density more than tripled and the organized labor movement became a central component of a much larger social movement that dominated American intellectual and political thinking for several decades.

VI. *Conclusion*

The work of the early institutional labor economists provides numerous insights on the economic case for and against unionism and collective bargaining. Contained in their work is clear recognition that unions have two faces — a "monopoly" face and a "voice" face — and that unions both promote and harm economic efficiency and social welfare. In this respect, the ideas advanced by Freeman and Medoff have clear antecedents in the early institutional and industrial relations literature. Where the early institutionalists and F&M differ is that the former do not immediately assume the monopoly face of unions is detrimental, or that the voice face is mostly a matter of communication with management and aggregation of preferences to overcome collective choice problems. As seen by the institutionalists, most labor markets are by nature imperfect so the effect of union monopoly power is frequently to offset employer power in wage determination, resulting (on net) in more efficient and equitable terms and conditions of employment. Similarly, the fundamental contribution of the voice face of unions is to democratize the workplace, replacing unilateral and sometimes arbitrary rule with constitutional government in industry. Unions not only provide workers more "voice" (communication) but also more "muscle" (power) to make this voice heard and effective.

Key to the institutional theory of unions is a heterodox perspective on labor markets that contains a wider set of welfare criteria, a behavioral theory of the human agent, models of imperfect competition, explicit attention to the legal "rules of the game," and recognition of involuntary unemployment and dynamic linkages between microeconomic and macroeconomic aspects of wage/employment determination. With such a model, there is no presumption that market outcomes are necessarily efficient or fair — although they may be — and, thus, there is opportunity for the exercise of union power to do good as well as harm. The positive face of unions in the early institutional perspective comes from the exercise of union power to protect the underdog, level the playing field, promote full employment, bring a measure of justice, dignity, and due process to the workplace, and pressure legislators to pass laws promoting the interests of workers. In this mode, union power is required for both wages and voice and serves the social welfare in both cases (contra F&M). The negative face of unions appears when they pass from this protective and democratic function to an aggrandizing and autocratic function in which they use their power to exploit firms and consumers through excessive wages and restrictive rules, deny their own members genuine voice and representation in internal union governance, and lobby Congress for laws that protect and enhance union monoply rents at the expense of the welfare of the community. Expressed in this face, union power is detrimental to social welfare in both its bargaining and voice functions.

The other key insight provided by the early institutionalists is that the degree to which unions have a positive versus negative face depends on several important contingencies overlooked by F&M and many other contemporary economists. The first is the level of unemployment in the labor market. The greater the level of unemployment in the labor market, the worse the imbalance in bargaining power between the employer and worker and the greater the need for collective bargaining to protect workers from the emergence of exploitation, sweatshop conditions, and unjust treatment. Explicit in this position is rejection of the orthodox assumption (at least in simple models) that a general decline in wages and labor standards is an effective or socially desirable way to solve an unemployment problem. Conversely, when labor markets operate at full employment, most individual workers confront their employers on a relatively level playing field and the need for union countervailing power is much reduced — but not completely eliminated since there always exists a residual of "low-road" employers and ill-treated workers even in the tightest labor market.

The other important contingency the work of the early institutionalists emphasizes is the availability and effectiveness of good substitutes for union protection. "Good markets" (full employment) are one such substitute, but so are "good employers" and "good laws" (Bennett and Kaufman, 2002). The early institutionalists never wavered in their belief that American labor markets would benefit from higher union density, but over time they significantly scaled-back their "optimal" level of density as these other substitute tools for solving labor problems emerged and developed. As they realized, the more widespread and effective are good markets, good employers, and good laws, the smaller will be the private and social demand for collective bargaining. When both the "good markets" and "good employer" options failed in the 1930s, however, they joined with the Roosevelt administration to aggressively push forward collective bargaining and legal enactment as a way to cope with that decade's enormous labor problems. Over the intervening seven decades the nation has greatly expanded the scope and scale of labor law, succeeded in providing greater stability and full employment in labor markets, and developed far more sophisticated and professional human resource management practices. Although it is conjecture on my part, if the early institutional labor economists were still alive, I believe that they would once again scale back the optimal level of union density in light of these trends, albeit not to current levels in the private sector. These historical developments, and their implications for trade unionism and national labor policy, are largely omitted by F-M from *What Do Unions Do?*, however, with the result their analysis of trade unionism and case for higher union density is less complete and persuasive.

REFERENCES

Adams, Henry Carter. "Relation of the State to Industrial Action." *Publications of the American Economics Association* 1 (No. 6, 1886): 7–85.

Adams, Thomas, and Helen Sumner. *Labor Problems*. New York: MacMillan, 1905.

Baker, Ray Stanard. "A Corner on Labor." *McClures* 22 (1904): 366–78.

Bendix, Reinhard. *Work and Authority in Industry*. New York: Wiley, 1956.

Bennett, James T. and Bruce E. Kaufman. "Conclusion: The Future of Private Sector Unionism in the U.S. – Assessment and Forecast." In James Bennett and Bruce Kaufman, eds. *The Future of Private Sector Unionism in the United States*. Armonk, N.Y.: M.E. Sharpe, 2002, pp. 359–86.

Budd, John. *Employment with a Human Face: Balancing Efficiency, Equity, and Voice*. Ithaca: Cornell University Press, 2004.

Catlin, Warren. *The Labor Problem in the United States and Great Britain*. New York: Harper, 1926.

Clark, John M. *Studies in the Economics of Overhead Costs*. Chicago: University of Chicago Press, 1924.

Commons, John. "American Shoemakers, 1648–1895." *Quarterly Journal of Economics* 24 (November 1909): 39–83.

———. *Labor and Administration*. New York: MacMillan, 1913.

______. *History of Labor in the United States*, 4 vols. New York: MacMillan, 1918.

______. *Industrial Goodwill*. New York: McGraw-Hill, 1919.

______. "Industrial Relations." In John R. Commons, ed. *Trade Unionism and Labor Problems*, 2nd series. New York: Augustus Kelly, 1921a: 1–16.

______. *Industrial Government*. New York: MacMillan, 1921b.

______. *Institutional Economics: Its Place in Political Economy*. New York: MacMillan, 1934a.

______. *Myself*. Madison, Wisc.: University of Wisconsin Press, 1934b.

______. *The Economics of Collective Action*. Madison, Wisc.: University of Wisconsin Press, 1950.

______ and John Andrews. *Principles of Labor Legislation*, 4th ed. New York: Harper & Row, 1936.

Cooper, Lyle. "The American Labor Movement in Prosperity and Depression." *American Economic Review* 22 (December 1932): 641–59.

Derber, Milton. *The American Idea of Industrial Democracy, 1865–1965*. Champaign: University of Illinois Press, 1970.

Dickman, Howard. *Industrial Democracy in America*. LaSalle, Ill.: Open Court Press, 1987.

Douglas, Paul. *The Theory of Wages*. New York: MacMillan, 1934.

Dunlop, John. *Wage Determination under Trade Unions*. New York: MacMillan, 1944.

Ely, Richard. *The Labor Movement in America*. New York: Thomas Crowell, 1886.

Estey, J.A. *The Labor Problem*. New York: McGraw-Hill, 1928.

Fine, Sidney. *Laissez Faire and the General Welfare State: A Study of Conflict in American Thought, 1865–1901*. Ann Arbor: University of Michigan Press, 1956.

Glickman, Lawrence. *A Living Wage*. Ithaca, N.Y.: Cornell University Press, 1997.

Hansen, Alvin. "The Economics of Unionism." *Journal of Political Economy* 30 (August 1922): 518–30.

Hawley, Ellis. *The New Deal and the Problem of Monopoly*. Princeton: Princeton University Press, 1966.

Hoxie, Robert. *Trade Unionism in the United States*. New York: Appleton, 1917.

Huthmacher, Joseph. *Senator Robert F. Wagner and the Rise of Urban Liberalism*. New York: Atheneum, 1968.

Hutt, W.H. *The Theory of Collective Bargaining*, reprinted. Washington: Cato Institute, 1980.

Jacoby, Sanford. *Modern Manors: Welfare Capitalism since the New Deal*. Princeton: Princeton University Press, 1997.

Kaufman, Bruce. *How Labor Markets Work: Reflections on Theory and Practice by John Dunlop, Clark Kerr, Richard Lester, and Lloyd Reynolds*. Lexington: Lexington Books, 1988.

______. "Labor's Inequality of Bargaining Power: Changes over Time and Implications for Public Policy." *Journal of Labor Research* 10 (Summer 1989): 285–97.

______. Labor's Inequality of Bargaining Power: Myth or Reality?" *Journal of Labor Research* 12 (Spring 1991): 151–66.

______. *The Origins and Evolution of the Field of Industrial Relations in the United States*. Ithaca, N.Y.: ILR Press, 1993.

______. "The Evolution of Thought on the Competitive Nature of Labor Markets." In Clark Kerr and Paul Staudohar, eds. *Labor Economics and Industrial Relations: Markets and Institutions*. Cambridge: Harvard University Press, 1994, pp. 145–88.

______. "Why the Wagner Act?: Reestablishing Contact with Its Original Purpose." In David Lewin, Bruce Kaufman, and Donna Sockell, eds. *Advances in Industrial and Labor Relations*, Vol. 7. Greenwich, Conn.: JAI Press, 1996, pp. 15–68.

______. "Labor Markets and Employment Regulation: The View of the 'Old' Institutionalists." In Bruce Kaufman, ed. *Government Regulation of the Employment Relationship*. Madison, Wisc.: *Industrial Relations Research Association*, 1997, pp. 11–55.

______. "Emotional Arousal As a Source of Bounded Rationality." *Journal of Economic Behavior and Organization* 38 (February 1999a): 135–44.

______. "Expanding the Behavioral Foundations of Labor Economics." *Industrial and Labor Relations Review* 52 (April 1999b): 361–92.

______. "The Early Institutionalists on Industrial Democracy and Union Democracy." *Journal of Labor Research* 21 (Spring 2000a): 189–210.

______. "The Case for the Company Union." *Labor History* 41 (August 2000b): 321–50.

______. "The Theory and Practice of Strategic HRM and Participative Management: Antecedents in Early Industrial Relations." *Human Resource Management Review* 11 (Winter 2001): 505–34.

______. "John R. Commons and the Wisconsin School on Industrial Relations Strategy and Policy." *Industrial and Labor Relations Review* 57 (October 2003): 3–30.

______. "What Unions Do: Insights from Economic Theory." *Journal of Labor Research* 25 (Summer 2004a): 351–82.

______. *The Global Evolution of Industrial Relations: Events, Ideas, and the IIRA*. Geneva: International Labour Organization, 2004b.

______. "The Institutional and Neoclassical Schools in Labor Economics." In Dell Champlin and Janet Knoedler, eds. *The Institutionalist Tradition in Labor Economics*. Armonk, N.Y.: M.E. Sharpe, 2004c, pp. 13–38.

Keynes, John. *The General Theory of Employment, Interest and Money*. New York: Harcourt Brace, 1936.

Leiserson, William. "Constitutional Government in American Industries." *American Economic Review* 12 (March 1922): 56–79.

______. *Right and Wrong in Labor Relations*. Berkeley: University of California Press, 1938.

Lester, Richard. *Economics of Labor*. New York: MacMillan, 1941.

Lichtenstein, Nelson and Howell Harris. *Industrial Democracy in America: The Ambiguous Promise*. New York: Cambridge University Press, 1993.

Marshall, Alfred. *Principles of Economics*, 9th (Valorium) ed. London: MacMillan, 1961.

MacDonald, Lois. *Labor Problems and the American Scene*. New York: Harper, 1938.

McNulty, Paul. *The Origin and Development of Labor Economics*. Cambridge: MIT Press, 1980.

Millis, Harry and Royal Montgomery. *Organized Labor* (Vol. 3 of *The Economics of Labor*). New York: MacGraw-Hill, 1945.

Moss, David. *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy*. Cambridge: Harvard University Press, 1996.

National Labor Relations Board. *Legislative History of the National Labor Relations Act*, Vols. 1 and 2. Washington, D.C.: U.S. Government Printing Office, 1985.

Perlam, Mark and Charles McGann, Jr. *The Pillars of Economic Understanding: Factors and Markets*. Ann Arbor: University of Michigan Press, 2000.

Perry, Arthur. *Elements of Political Economy*. New York: Scribner's, 1878.

Petridis, Anastasios. "Alfred Marshall's Attitudes to an Economic Analysis of Trade Unions: A Case of Anomalies in a Competitive System." *History of Political Economy* 5 (1 1973): 165–98.

Reder, Melvin. "Chicago Economics: Permanence and Change." *Journal of Economic Literature* 20 (March 1982): 1–38.

Reynolds, Lloyd. "The Supply of Labor to the Firm." *Quarterly Journal of Economics* 60 (May 1946): 390–411.

Ross, Arthur. *Trade Union Wage Policy*. Berkeley: University of California Press, 1948.

Slichter, Sumner. *Modern Economic Society*, 2nd ed. New York: Henry Holt, 1931.

______. "The Changing Character of American Industrial Relations." *American Economic Review* 29 (March 1939): 121–37.

______. *Union Policies and Industrial Management*. Washington, D.C.: Brooking Institution, 1941.

Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*. New York: Modern Library, 1937 (1776 original).

Stabile, Donald. *Activist Unionism: The Institutional Economics of Solomon Barkin*. Armonk, N.Y.: M.E. Sharpe, 1993.

Steinbeck, John. *The Grapes of Wrath*. New York: Viking, 1939.

Taylor, James. "Exploitation Through Contrived Dependence." *Journal of Economic Issues* 11 (March 1977): 51–59.

Veblen, Thorstein. *The Theory of Business Enterprise*. New York: Scribner's, 1904.

Webb, Sidney and Beatrice Webb. *Industrial Democracy*. London: Longmans Green, 1897.

Whalen, Charles. "Saving Capitalism by Making It Good: The Monetary Economics of John R. Commons." *Journal of Economic Issues* 27 (December 1993): 1155–79.

Wheeler, Hoyt. *Industrial Conflict: An Integrative Theory*. Columbia: University of South Carolina Press, 1985.

Yonay, Yuval. *The Struggle over the Soul of Economics: Institutionalist and Neoclassical Economists in America Between the Wars*. Princeton: Princeton University Press, 1998.