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Review of “Labor Economics and Labor Relations,” By Lloyd G. Reynolds

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LABOR ECONOMICS AND LABOR RELATIONS. By Lloyd G. Reynolds. New York: Prentice-Hall, Inc. 1949. Pp. xii, 552.

Lawyers are prone to spurn the reading of college textbooks. After all, they reason, a textbook is elementary, pedantic and of little value to a practicing lawyer. Lloyd G. Reynolds' "Labor Economics and Labor Relations" is a college textbook. Unfortunately, that fact will tend to restrict to the academic halls the reading of his keen analysis of wages and earnings. Every lawyer who has, or might have, occasion to consider the questions of wages and earnings would be richly rewarded by reading pages 319 to 464 of this book. Indeed, if these pages were published as a separate book (with some revisions to eliminate the necessity of referring to other sections of the original text) it would be a valuable guide to business men, unionists and lawyers in understanding one of the most intricate problems in our contemporary economic life.

Most people concerned with wage determination have little idea of what factors are really involved. Mr. Reynolds, a professor of economics at Yale University, is one of an increasing number of economists convinced that we must discard archaic shibboleths in considering wages. His analysis is penetrating, provocative and exceedingly practical.

The erroneous notion that we have a perfectly competitive labor market is still widely believed, or at least expounded, by many people. The facts, even in nonunion wage determination, belie this notion. The mobility of labor is an essential postulate of the competitive theory. Yet, as Mr. Reynolds points out, there are numerous obstacles to labor mobility which virtually denude it as an operating postulate. Some of these obstacles are: the necessity for job vacancies; specialized jobs in many plants having no counterparts in other plants; promotions within rather than hiring from outside which results from this specialization; screening requirements (age, sex, color, national origin, education, etc.); reluctance by many employers, especially in small communities, to hire away employees of another employer; workers lack of knowledge concerning job opportunities in other plants or industries; seniority with its job security and other benefits; and the plain fact that workers rarely select, or are in a position to select, jobs in an economic way.

If we do not have a truly competitive labor market, what determines wages and earnings? Mr. Reynolds properly points out that in "a field where evidence is still so fragmentary and inconclusive, it is better to be frank about the limitations of our knowledge than to give a false impression of definiteness." He then probes various facets of this intriguing subject of wages and earnings.¹

1. The scope of Mr. Reynolds' inquiry is well indicated by the following questions he poses and discusses:

"How do employers set particular money wage rates under non-union conditions? What are the characteristic features of the so-called 'labor market,' and how closely do market forces limit what the employer can and cannot do about wages? How does the employer determine when the wage level of his plant should be raised or lowered, and by how much?"

"How is the situation altered by the appearance on the scene of a trade union? Who formulates union wage demands, and what are the motivating

His approach is refreshingly realistic. For instance, he points out that doubtless still the most important element, in an elaborate system of employer adopts a certain position, and the *rationalization* of this position which is presented to the public." A wage demand may be publicly "justified" during an inflationary period by the "cost of living" argument, but in a recession the "cost of living" argument is repudiated and the "desirability of maintaining purchasing power" becomes the theme. Likewise, during a period of recession "ability or inability to pay" is argued to resist a wage demand or to "justify" a wage reduction. But, "ability to pay" is repudiated and some other contention, such as "productivity," supplants it during a period of prosperity. The illogical nature of such rationalization is demonstrated by the fact that "unions and managements pick and choose among them to meet their need at a moment, and switch unblushingly from one line of argument to a precisely contradictory line on another occasion."

Monetary wage rates are not the only form of employee compensation. There are the non-wage benefits and costs, such as paid holidays, sick-leaves, vacations, health and hospitalization plans and pensions. Mr. Reynolds can foresee "the time when the basic wage rate will be only one element, though doubtless still the most important element, in an elaborate system of employee compensation."

Because our economy is dominated by strongly organized economic interests and has largely turned its back on "the free market," it is predicted that sometime in the future, determination of the *general* wage level in this country will become a matter for bargaining among union, management and *government*. It should be noted that this prediction specifies the general wage level and not industry and plant levels as such. Mr. Reynolds is definitely opposed to compulsory arbitration of wage and labor disputes which he describes as "using a sledge hammer to crush a mosquito."

While Mr. Reynolds makes an original approach to many phases of the wage issue, he is not entirely disdainful of the more traditional theorists.

forces behind them? How does the union decide how large a general wage increase it should ask at a particular time? What part do unions play in the determination of rates for particular jobs in the plant, in the management of incentive systems, and in many other aspects of wage administration?

"What are the economic consequences of union wage-raising activities? What are the main effects of wage increase in a single company? Looking beyond the individual firm, how will an industry-wide wage increase affect prices, output, and employment in the industry? What are likely to be the effects of union efforts to bring the wage rates of all firms in an industry up to the same level?

"What are the basic factors limiting the real income of the wage-earning population at a particular time? To what extent can workers, through comprehensive union organization, transfer to themselves a larger share of national income? Does an increase in the general level of *money* wages raise workers' *real* incomes, or does it leave real incomes unchanged by raising the cost of living proportionately? How do changes in the general level of money wages affect the level of employment in the economy? Can general wage increases or reductions prevent recession or stimulate recovery?

"How would it be desirable for the national wage structure to behave

Of the marginal productivity analysis, fathered by John Bates Clark,² he says: "It is quite possible to maintain that marginal productivity analysis tells you a good deal about long-run tendencies in the economy, while telling you very little about what will happen in the ABC Company during the coming year." Mr. Reynolds is concerned about the particular company, and his chapter on "The Economics of Wage Raising: the Firm, the Industry" is most enlightening.

In assaying the total effect of unions on our society and on our economic life, Mr. Reynolds is cautious; he limits most of his conclusions to hypotheses which should be subjected to considerably more examination and study. Here are some of the hypotheses: Unionism (a) reduces potential national output, (b) brings actual output closer to potential output by reducing the severity of cyclical fluctuations, and (c) alters the distribution of national income to the advantage of labor. Where all workers in an industry are organized in a single union, there is a tendency toward a reduction of the percentage spread between the lowest-paid and the highest-paid workers in the industry. This pressure for wage equality forces all plants and managements to come up to a certain standard in order to survive. Collective bargaining also tends to stabilize the general wage level during periods of business depression. At the same time, collective bargaining sometimes produces maldistribution of personal incomes and misallocation of economic resources among different lines of production, but there are some natural checks on such tendency. The issues of "benefits to workers" versus "costs to consumers" can be answered only with respect to the particular situation. On the whole, the author feels that one comes closer to a proper balancing of producer and consumer interests with collective bargaining than without it. There are, however, certain benefits to workers which do not add costs to consumers, for instance, the protection afforded by grievance procedures. Such non-monetary features constitute one of the most important effects of unionism. The union worker comes closer than the nonunion worker to being a completely free man; he has a sense of participation in economic and political affairs. Unions function as pressure groups. Thus, over the course of the years, various labor objectives "are becoming ever more solidly embedded in our legislative and administrative structure."

While one can disagree with some of Mr. Reynolds' analyses and conclusions, it cannot be gainsaid that his presentation is an intellectual stimulant in a field which direly needs re-examination.

over the course of time? To what extent does the kind of wage behavior which seems to be developing under collective bargaining correspond with this desirable pattern? Are the defects of wage determination through collective bargaining serious enough to justify increased public control of wage bargains? To what extent is government already involved in the determination of the national wage structure, and with what consequences?"

2. It is unfortunate that Mr. Reynolds' explanation of John Bates Clark's theory is confused. This results from using Clark's famous Chart 14, but in using letters to explain the chart which are not found on the chart, and in not assigning the letters found on the chart their proper significance.

Nothing has been said about the portions of this book not included in the 145 pages previously mentioned. The remainder of the book contains the usual material found in labor relations and economics texts. The material is ably presented in a well organized and coherent manner. Students who study it will acquire a sound understanding of fundamental issues.

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LABOR PROBLEMS IN AMERICAN INDUSTRY. By Carroll R. Daugherty. Houghton Mifflin Co., 1948. Pp. xxii, 1066, xivp maps. \$5.00.

In this most comprehensive work, the author, who is Professor of Business Economics in the School of Commerce of Northwestern University, defines the labor problem, in its broadest aspect, as the lack of harmonious relationship between employers and employees over their respective shares of the products of industry.

Having established this premise he has proceeded to divide his book, like Gaul, into three parts for the purpose of his discussion. In Part One he gives historical and background material in order to provide a better understanding of the problems discussed in Part Two, an approach which is all too often disregarded by those in the field of labor relations. Part Two is devoted to an analysis of the five problems which the author considers of major importance today—the feeling of insecurity of workers in modern industry; wages and income; hours and work periods; sub-standard workers; and industrial autocracy, defined as the employer's "almost absolute power over individual workers."

A definite pattern is established in the discussion of each of these problems. First, the problem is defined. Secondly, the available data is presented in order to stake out the boundaries of the problem. Third, the results on employers, employees, and society are shown. Fourth, the causes are analyzed. And last, the remedies and solutions, both those already tried and those proposed, are reviewed.

Part Three of the book is composed of an examination of the remedies either adopted or proposed by unions for the solution of the labor problems discussed in Part Two; to the employers' approach to the solution; and to the governmental approach. A review of the first of these labor problems, that of the feeling of workers' insecurity, will serve to illustrate the thoroughness of Professor Daugherty's treatment of his subject. Chief among the things in modern society about which a man likes to feel secure, states the author, is the continuance and assurance of a means of livelihood. Hence the greatest risk encountered by the wage earner is that of unemployment, whether resulting from the law of supply and demand in the labor market, from technological improvements which obviate the need for his services, from the decline or elimination of the industry in which he labors, or from similar causes discussed in the book. In addition, chapters are devoted to the physical risks incident to industry, both of accident and health, and to the problems of superannuation. The results of unemployment on employees, employers, and society as a whole are discussed at con-

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