Union Myopia and the Taxation of Capital

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As with managers, politicians, or any other groups of decision makers, workers will appropriately weigh the future when it is in their private advantage to do so. Private ownership plays an important role in providing the proper set of incentives. Workers own the future income streams their human capital allows them to generate. As a result, they willingly sacrifice current income in order to invest in their human capital by going to college, taking training courses, and working at low-paying jobs which provide opportunities for valuable experience and future advancement. Empirical work on the rate of return from educational expenditures indicates that future returns are heavily weighted when people are investing in their own human capital.¹

As far as individual workers are concerned, however, sacrificing current income in the form, say, of a lower current salary in order to invest in the future productivity of the firm for which they work is an entirely different matter. In the first place, each worker would incur personally the entire cost of his or her lower salary while realizing that the future benefits from increased productivity would be spread over everyone with a financial stake in the firm. Each worker would have an obvious motivation for resisting a reduction in his or her salary in order to make such an investment. Secondly, in their roles as workers, individuals will perceive no benefit from improved firm productivity beyond the point in time when they sever their employ-


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ment connection with the firm. Given the mobility of the work force, and the significant percentage of the work force which at any point in time is within a few years of retirement, it is clear that socially productive capital investments with extended pay-back periods will offer little attraction to a large number of workers.  

It can be argued that organizing workers in a union is a means whereby these problems can be mitigated. Unions supposedly make it possible for workers to acquire collective benefits that they would not be able to obtain if required to negotiate with their employers as individuals. For example, when wages are determined collectively, each worker will be more willing to sacrifice current wages for future increases in productivity and wages, since the sacrifice of one worker will be accompanied by the sacrifice of all others. Therefore, it can be argued that workers, voicing their preferences through a union organization, will discount future returns less than they would in a nonunion setting. Also, unions have an organizational existence that extends beyond the working lifetime of their individual members. This, it can be argued, provides an additional reason for believing that wage and salary demands transmitted through unions will reflect a longer-term perspective than would otherwise be the case.

There are two responses to this line of argument which need to be considered. First, under traditional arguments, the time horizon of business decisions depends very little on the time perspective of workers with respect to the trade-off between current wages and long-term business investment. In all aspects of economic activity, specialization is important. Those who are residual claimants to the present value of the firm's profit stream, or those who are agents for

2. Workers’ ownership of stock in the company they work for will lengthen their time horizon with respect to the firm’s productivity. But as a practical matter, for most employees their return from salary will dominate what they can expect to receive from dividends and capital gains, and therefore their time perspectives, as they relate to the firm’s capital decisions, will not be appreciably affected by stock ownership.

3. Unions have recently been defended as efficiency-increasing organizations with the argument that many features of the work place are accurately characterized as public goods, and that unions allow workers collectively, and therefore effectively, to communicate their demand for these public goods. See Richard B. Freeman and James L. Medoff, What Do Unions Do? New York, Basic Books, 1984. For a critical evaluation of this perspective on unions, see Morgan O. Reynolds, Power and Privilege: Labor Unions in America (New York: Universe Books, 1984), pp. 71-72, 77-80.

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these claimants, are in the best position to specialize effectively in making decisions which affect the firms' long-run wealth and productivity. These decisions are guided, of course, by market information on relevant interest rates, the revenue potential of particular product choices, and the value of different input mixes in alternative employments.

Workers specialize best in this process by staying informed on their opportunity cost, increasing this cost within limits determined by their individual abilities and preferences, and refusing employment with those firms which refuse to cover this cost. Employees have a strong motivation to do all of these things. Just as few workers have to extend themselves beyond their narrow specialties and worry about agricultural decisions as a means of putting food on the table, neither do they have to concern themselves with the long-run consequences of business investment decisions in order to ensure that the capital base, upon which their real wages depend, continues to grow.

The appropriate responses to the argument that unions last beyond the time horizon of workers is that this is largely irrelevant. It is not the longevity of an organization that is important to the discounting of the future, but rather the incentives built into the organization's structure. After all, corporations commonly outlive their shareholders and this provides no basis for insisting that corporate arrangements are ideal at motivating decision-makers to apply the appropriate discount to the future. And the same is true for union arrangements. Indeed, the incentives built into union organizations are less conducive to weighing the future adequately. Any move in the direction of substituting union control for traditional control over a firm's decisions will only shorten the time horizons for business decision making.

The comparison to which our discussion has led us is between the organizational incentives of unions and those of corporations and the relative effectiveness of these incentives at motivating future-oriented decisions. The important distinction between unions and corporations in this regard centers around arrangements involving property

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4. The problem of motivating agents to remain responsive to the long-run concerns of their principals is, in the case of business organizations, at its most troublesome in corporations. Therefore, this comparison is, if anything, biased against viewing business organizations as being far-sighted relative to labor unions.

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rights. In the previous section, we examined the importance of transferable property rights, in the form of stock, as a means of reflecting the future consequences of corporate decisions and in providing both the means and the motivation to take those consequences into consideration. The myopia of unions relative to corporations is explained by the fact that unions do not come with comparable property rights, and therefore the long-run wealth effects of current decisions are not clearly registered in a way that feeds back into union decisions. There are several implications of this fact which are pertinent to our discussion.

Without transferable property rights reflecting the present value of employment opportunities in a firm or industry, the control of union members over the management of the union is quite limited. It is true that union members may have the right to vote on some levels of their leadership and on some of the recommendations made by that leadership. To this extent, the control of union members over union management is the same as the control of shareholders over corporate management. Well-informed and politically active voters can collectively keep management from deviating too far from their interests in both cases. The problem, of course, is that each voter, as a voter, has little motivation to be either informed or active, since his or her individual vote is unlikely to impact on the decision being made.

It is here that we can recall a major advantage of stock ownership that gives shareholders more control over their agents than union members will have over theirs. The shareholder has an additional margin on which to exercise choice both conveniently and decisively, and that margin comes from the ability to buy and sell corporate stock. The member of a union is in a much inferior situation in this regard. The union member would have to be prepared to change employers, and possibly occupations, in order to protect himself against the negative effects of poor management decisions as effectively as the shareholder can by simply selling his stock.

This means that union leaders will have more latitude within which to maximize their personal advantages and promote their own agendas than will corporate managers. The preferences of the union membership will not serve to constrain the decisions of those in union hierarchies as effectively as is the case of shareholder preferences vis-à-vis the managers of corporations.
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Also, little control can be exerted over union leaders through the sort of market for managers which does serve as a partial control mechanism in the case of corporations. Union managers typically work up from within a given union organization, with it seldom the case that a union leader will be brought in from the outside. With less opportunity for union leaders to profit financially from a reputation for promoting the interests of their membership, the connection between the self-interest of union management and the welfare of union members is further weakened. Thus, those in a position of power in the union hierarchy have a further degree of freedom to ignore membership concerns in favor of promoting their own interests.

One can expect then that, with respect to many issues, union decisions will not be representative of the interests of the rank-and-file member. This is particularly evident when the positions which unions take on political issues are contrasted with the political preferences of their members. Researchers have found, for example, that in a majority of questions posed to union members in national opinion polls, their positions differed (sometimes diametrically) from the positions for which their union leaders were lobbying in Congress. Union management is able to continue indefinitely with political activities that are increasingly at variance with the views of their membership.

However, even if union leaders were perfectly responsive to the concerns of their worker members, they may still be relatively insensitive to the future consequences of current wage and salary decisions. Workers, not owning transferable "employment stock" that reflects the long-run value of their jobs, have little motivation to take the long view when balancing current wage demands against the long-run gains from maintaining and expanding a productive capital base. But arranging for the ownership of such "employment stock" would require that workers quite literally own their jobs, with the right to sell them to whomever they please. Such an arrangement would effectively remove all control over employment decisions from those who have supplied capital to the industry and would therefore greatly


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increase the cost of raising large amounts of capital.

There is little reason to expand on the unfeasibility of such an employee job ownership plan. The point is that, under reasonable property rights arrangements, workers will be less sensitive to the long-run employment effects of current salary, wage, and investment decisions than will corporate managers whose current compensation is directly tied to the price of stocks. If there is an issue upon which workers do focus, and which comes closest to being used as a monitor of the effectiveness of union leadership, it is the issue of current compensation. The quickest way for a union leader to incur the disapproval of the membership, and put his leadership position at risk, is by demonstrating an inability to extract current wage and benefits increases from employers.

**Government Policy and Union Power**

Union myopia with respect to business investment and capital formation would pose no threat to economic productivity and growth in the traditional U.S. setting where government is confined to a rather limited role in economic affairs. The economic role of government as envisioned by the Founding Fathers, though limited, was crucially important. Government was to create an economic environment of stability and confidence in which the rules of the game rewarded productive activity, where people knew what those rules were and had confidence that they would not be constantly assaulted by political whimsy. The primary economic responsibility of the government in this regard involved protecting private property rights against both domestic and foreign violations, and enforcing voluntary contracts. In other words, the task of government was to serve as a referee, making sure the game was being played in accordance with constitutionally agreed upon rules. It was emphatically not to be the government’s role to become an active participant in the economic game in order to determine outcomes favoring some participants at the expense of others.

Although the ideal of the minimal state has never been fully realized in this country, or in any other, there can be no doubt that for more than 150 years of U.S. history decisions on the allocation of business income between wages and capital investment were left almost entirely to the discretion of capital owners and/or their corporate agents. It is equally true that the exercise of this discretion,
subject as it largely was to the constraints imposed by respect for private property, voluntary exchange, and open competition, resulted in a level of economic progress which served the long-run interests of workers as well as of capital owners. To the superficial observer, it may have appeared that the rule of property favored the interests of capital over those of the worker. The falsity of this view is apparent to anyone who examines, even casually, the growth of wealth through U.S. history and how this wealth has been distributed between capital and labor.

Nonetheless, the view that the rules of property and free exchange put workers at a disadvantage relative to capital owners has persisted, and over the last half of this century has been increasingly influential politically. The result has been an obvious shift in the role of government away from that of the impartial enforcer of neutral rules to that of an active participant in the game, promoting outcomes favorable to the interests of workers. Of course, the tilting of the playing field in favor of labor unions is not acknowledged as such. The impression given, as expressed by economists Heldman, Bennett, and Johnson, is that laws regulating labor relations provide “little more than a general framework within which labor exchanges take place largely in response to traditional market pressures.” These authors go on to show that this impression is completely false.

One of the more blatant examples of the government overriding market forces in the interest of particular workers is given by minimum wage legislation. Politically determined minimum wages, along with maximum hours restrictions, as provided for by the Fair Labor Standards Act (FLSA) of 1938, obviously deny both workers

6. Seldom is the notion of the disadvantage of labor challenged. It is simply accepted as a self-evident truth by most, including economists who are normally proud of their professionally honed skepticism. Economist William H. Hutt has, however, carefully examined the implications of the disadvantaged worker assertion and has called into serious question its validity. See W.H. Hutt, The Theory of Collective Bargaining (London: King, 1930). For a concise discussion of Hutt’s insights in this regard, see Morgan O. Reynolds, op. cit. (n. 12 above): pp. 26-27.

7. More accurately, to the interests of the minority of workers who are members of labor unions.

and employers opportunities to enter into mutually advantageous exchanges. Over 70 percent of the nonagricultural work force is currently covered by either federal or state wage and hour standards. And this surely understates the extent of government control, since it does not include those who, while not covered by FLSA-type legislation, are restricted by the Davis-Bacon, Walsh-Healy, or O’Hara-McNamara Acts. It is not the purpose of this paper to elaborate on the unfortunate effects on nonunion and minority workers stemming from these restrictions of the labor market. It suffices here to point out that the above acts represent direct government action which shifts control over employment decisions away from capital owners and toward union leaders by denying market opportunities to nonunion workers.

With enactment of the National Labor Relations Act (Wagner Act) in 1935, the government created another instrument for granting unions power to distort market decisions in favor of organized workers. Although the impact of the Wagner Act was moderated to some extent in 1947 with passage of the Taft-Hartley Act, the history of the National Labor Relations Board (NLRB), established by the Wagner Act, shows a consistent pattern of decisions favoring union power.

If, during a certification election to determine if a union is to be the exclusive representative of the employees, the NLRB decides that the employer has committed an “unfair labor practice,” the Board can order the employer to grant recognition to the union. This has been done even when the union clearly failed to win the support of a majority, not of the employees, but of the employees voting. To avoid an unfair labor practice ruling, the employer has to, among other things, be very circumspect in how it responds to union charges, assertions, and accusations during the period leading up to a certification election. The employer who threatens is seen to be in violation of fair labor practices by engaging in a threat of force or reprisal. The Board is much more tolerant of union communications to employees. Furthermore, if a union is found to have engaged in unfair labor practices, the Board will seldom reverse an election that the union has won.

9. See Heldman, Bennett, and Johnson, ibid., p. 43.

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The NLRB has ruled that an employer is violating employee rights if he or she is engaged in conduct which, it may reasonably be said, tends to interfere with ...employee rights under the Act (NLRB). Neither the intent behind, nor the success of, an employer’s supposed violation of employee rights is relevant according to NLRB rulings - rulings that have defined employee rights, as contained in Section 7 of the NLRA, very broadly. Although the Taft-Hartley Act attempted to provide employees the same protection against unions as the Wagner Act had provided against employers, in practice the unions are given much more latitude than are employers in this regard. For example, the refusal of an employer to bargain with a certified union constitutes a “per se” violation of employee rights. This is seldom the case if a union refuses to bargain with an employer.10

Even without the threat of unfair labor practice charges, the deck has been stacked in favor of unions by NLRB rulings, rulings which in some cases override the obvious intent of Congress. Congress clearly state in Section 9 of the NLRA that, in a union certification election, it is the number of employees in the unit which is relevant in determining whether or not a majority favors the union. Yet, over the years the Board has chosen to ignore this express language and has ruled that it requires only a favorable vote from a majority of those voting in order for the union to win. It is not hard to find examples of the union being certified the exclusive representative of all the employees when as few as 20% of the employees actually voted for the union.

Even the seemingly innocuous requirement imposed by the Wagner Act, that the employer “bargain collectively with representatives of his employees,” has been used to favor the short-run interests of union officials and organized workers. First, it was not even suggested that a corresponding requirement applied to unions until, twelve years after it was enacted, the Wagner Act was amended by the Taft-Hartley Act. But more important than what the legislation actually says is how it has been interpreted and used. The Congressional debates over the Wagner Act indicate that Congressmen either

10. Heldman, Bennett, and Johnson, ibid., p. 50.
did not intend, or were reluctant to admit they intended, that the collective bargaining requirement aimed at any particular pattern of outcomes. Rather, the stated intent was that of establishing a process which facilitated bargaining between employers and employee representatives. This is reflected in the statement in 1935 by Senator Walsh to the effect that the intent was to "escort representatives to the bargaining door, not control what goes on behind the door." 11 Unfortunately, the impartiality suggested here is not in the least indicative of how the collective bargaining requirement has in fact been interpreted.

For example, bargaining is supposed to take place in "good faith." 12 While few will fault the spirit of good faith bargaining, fewer yet have any idea of how to define operationally such a nebulous concept in an impartial way. Impression breeds on itself: The NLRB determined that ascertaining whether or not good faith bargaining has been violated requires looking at the circumstances reflecting respondent’s bargaining frame of mind. This attempt to look at reality as opposed to rhetoric has given the Board wide latitude to rule that bad faith has occurred when bargaining does not proceed in ways which members of the Board find agreeable. That this latitude has been used primarily against employers can hardly be considered debatable, even by committed advocates of unions. As a case in point, a company finding itself unable to reach agreement with a union’s international negotiators made a proposal instead to the union locals, and as a consequence was found to have acted in bad faith. The firm that has reached an impasse in bargaining with a union is still obligated to make some reasonable effort in some direction to compromise his differences with the union. Employers have learned through sad experience that this means yielding to union wage demands beyond the point warranted by the long-run interests of all concerned, since doing so is often less costly than facing the "remedies" the NLRB is prepared to impose on those with an "anti-union animus."

Government has gone far beyond its traditional, and proper, role in the area of labor relations. Rather than refereeing a process

11. Quoted in ibid., p. 62.
12. This language did not appear in the statutes until the Taft-Hartley Act, but the NLRB preceded the Taft-Hartley Act in using and interpreting this malleable concept.

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which, in the long-run, serves to benefit workers (unorganized as well as organized), investors, and consumers alike, the government has in effect decided that workers are the underdogs, and the subset of these workers who are organized should receive privileges not available to others. The short-run effect of this perversion of the rule of law is to benefit a small minority of the work force at the expense of all other actors in the productive process. The long-run effect is to reduce the time horizon relevant to investment decisions and to reduce the economic well-being of all our citizens.

Political Activity of Unions

Political actions in support of labor unions both reinforce, and are reinforced by, labor union support of particular political actions. Unions have been very effective at influencing the political process in support of legislation which increases the control of organized labor over business decisions.

The explanation for the political influence of organized labor is two-fold. First, labor unions are organized around a few major concerns, the short-run wage and fringe benefits of their members being one of the most important. It is well known that narrowly focused groups (typically those oriented around an occupational or professional interest) tend to be more easily organized and more effective politically than are those with a multitude of dispersed interests (e.g., consumers).

Second, political action is most successful when organized self-interest is able to masquerade behind the rhetoric of a noble purpose. And it would be difficult to find any group which has been more adept at disguising narrow self-interest with the mask of public interest than organized labor. Unions have been very successful at using the political process to increase the incomes of their members at the expense of workers in general, while maintaining the pretense that unions are struggling for the well-being of all workers.

The success of this pretense is derived largely from the fact that organized labor has been able to project the image of a movement dedicated to the protection of worker rights against the arbitrary
power of big business. Union-supported legislation that restricts
the discretion of capital owners, or their representatives, is often
politically popular because it is perceived as a justifiable means of
curtailing exploitative business practices. Surely, this explains much
of the political appeal of minimum wage laws, maximum hour
restrictions, and other legislation which limits the ability of employers
to contract with employees. The distrust of big business has also
been an important factor in much of the regulation government has
imposed on business beginning with the Interstate Commerce Act in
1887 and continuing through to the myriad of regulations which
characterize the current business environment. But regardless of why
such legislation has been enacted, the result has been the same. It
has created a setting in which nonunion workers are restricted from
competing with union workers either directly by offering to work for
less, or indirectly through the emergence of nonunion competitors to
existing firms. This increases the ability of unions to extract short-run
wage and salary concessions at the expense of long-run considerations
of capital investment and productivity.

Organized labor has also been active in support of political
measures to limit corporate practices which serve to motivate
corporate managers to pay attention to the long-run. As we have
previously discussed, arrangements which facilitate takeovers and
mergers increase the pressure on management to consider the future
consequences of current decisions. Compensation schemes such as
stock options and bonuses perform the same function. The innovation
of such arrangements has evolved over time as those firms that
provide the most effective incentives for maintaining long-run
productivity find their viability enhanced and their mode of operation
imitated.14

13. In fact, the real battle that union wage for their members is not against business, big
or otherwise, but against other workers who are anxious to work in union jobs for less than
union scale. Indeed, in the political arena, organized labor and established business
interests are often working on the same side of the fence, both supporting legislation which
restricts the options of unorganized workers and potential competitors to existing firms.
14. An example of such an innovation is the compensation of executives whose jobs are
terminated as a result of a successful takeover or merger. It has been argued that these
"golden parachutes" provide incentives for corporate executives to take risks more in line
with what their diversified shareholder would consider appropriate, and not to fight
takeovers that would be in the shareholder's interest. See Dennis Carlton and Jeffrey

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Not surprisingly, organized labor has generally supported legislation which restricts mergers and hampers takeover attempts. Union leaders are also quick to make a political issue out of bonus or stock option plans for corporate executives. The zero-sum fiction plays well politically that "fat cat" corporate managers are arbitrarily confiscating money that could, would, or should otherwise go to more deserving recipients (preferably unionized workers). Consider the current tax "reform," or Deficit Reduction Act of 1984, which singled out for an extra tax burden executive pay resulting from a change in corporate ownership. The question as to how influential organized labor was in support of any particular provision of this tax bill is, of course, debatable. But union support for political restrictions on management compensation clearly exists, and is influential.

The effect of union-supported restrictions of this type on corporate management is to reinforce the myopic thrust of union bargaining by shortening the time horizon of corporate management. Anything that reduces the incentive for corporate managers to value the future has the effect of lowering their resistance to union demands and increases the vulnerability of capital to these demands. The tax which short-sighted union demands imposes on business capital is just as destructive of economic productivity as are the taxes which government imposes on capital.

Unionize Now, Stagnate Later

The effect of union myopia on future productivity can be expected to show up in two ways. First, in anticipation of a union’s negative impact on the return to capital, one would predict that the projected equity value of a newly unionized firm, or one threatened with unionization, will fall. Second, in those industries in which union power is strongest, one would expect that wage demands will eventually reduce the industry’s competitiveness and, in the absence

Perloff, Modern Industrial Organization, Harper Collins, 2nd edition, 1994, p.41. But independent of whether or not golden parachutes do improve incentives, the important point is that they, like any innovation, are best evaluated in the market place. The value of new corporate arrangements will certainly be more accurately assessed by competition in markets than by politics in Congress.

of government bailouts and protections, push it into serious decline.

The best measure of the future profitability, appropriately discounted, of a firm is given by the value of that firm’s stock, assuming it is being bought and sold in an organized and open market. If a current decision is expected to reduce the future profitability of a firm, this will be reflected in an immediate decline in the price of the firm’s stock. Two M.I.T. economists, Richard Ruback and Martin Zimmerman, accordingly examined the impact on the price of a firm’s stock caused by the filing of a union election petition and then by the results of that election. Based on data from 1962 to 1980, Ruback and Zimmerman concluded that, on average, a successful union drive against a firm lowers the price of the firm’s stock by 3.84%. This corresponds to an average loss of $46,800 per worker employed by the unionized firms.16 This evidence reflects clearly the ability of unions to impose a tax on capital.

There are no economically neutral taxes, whether government-imposed or union-imposed, and investors will respond to the union confiscation of capital returns. This investor response will necessarily reduce the efficiency of the unionized firm, or industry, although the exact form of the response is difficult to predict a priori. On the one hand, the reduction in returns to current and potential investors reduces the industry’s investment appeal. This consideration suggests that capital formation will be retarded by the effects of unionization. Also, with profitability affected adversely by unions, internal financing of capital will be hampered.

On the other hand, one way to reduce the burden of union wage demands is by substituting capital for labor. And, indeed, one can be sure that the ratio of capital to labor will, over time, increase in response to excessive wage requirements. Whether or not this substitution effect will motivate an absolute increase in the amount of capital is not clear a priori. If, as is likely, the industry declines, or fails to grow as rapidly as otherwise, because of the union, then the capital-labor ratio can be increasing while the level of capital formation is being retarded. But, even if the amount of capital in the


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industry actually increases, it will be the result of a union-induced distortion in the capital-labor mix which will reduce both the efficiency of the industry and its ability to compete.

The evidence strongly suggests that an industry which becomes subject to a virtual union monopoly over labor is on its way to becoming a sick industry. When a union has the power to do so, it will obtain wage and benefit packages for its current members which cannot be sustained and, indeed, will mean less opportunity for future employees. The U.S. steel and automobile industries are notable examples. Both industries require large amounts of long-lived and immobile capital which are subject to exploitation by powerful unions. Not surprisingly, these industries have been confronted with industry-wide unions which, for several decades, have presented management with an effective labor monopoly. The result has been labor costs which, when measured against productivity, have been and are substantially higher than those faced by most other U.S. industries or by foreign automobile and steel producers.

The long-run impact of these excessive wages is perfectly predictable. Capital formation has lagged in the U.S. steel industry, with outdated and inefficient equipment and techniques still being widely used. Without political protection against foreign competition (provided through such devices as direct import restrictions, tariffs, or “domestic content” requirements), the technologically backward U.S. steel industry would be in even worse shape than it already is. The U.S. automobile industry has managed to maintain a technologically more current capital base than has the steel industry, although car makers also have lagged the foreign competition in important ways in this regard. The auto and steel industries are unfortunately not the only examples of short-sighted union demands contributing to the decline of basic industries and to shrinking employment opportunities for union members in those industries. The railroad and the rubber industries also might be cited as evidence of the long-run effect of strong labor unions on economic productivity.17

17. Obviously union demands are not the entire explanation for the decline of heavily organized industries. The myopia of labor organizations imposes a heavy tax on these industries. This is only one source of the tax burden which U.S. business must shoulder. But many of the other tax burdens enjoy the active political support of unions and their allies.
The union myopia which motivates excessive wage demands has been detrimental to the long-run well-being of all interests in the economy—consumers, providers of capital, and employees alike. But this economically destructive short-sightedness is the completely predictable consequence of political action which increases the power of unions over business decisions and over the allocation of business profits. Political attempts to rescue unions from the plight in which they find themselves, attempts which ordinarily involve granting them yet more power and imposing yet more restrictions on business decisions, will prove just as self-defeating in the long-run as have previous attempts.

Conclusion
We have examined a form of capital taxation that is seldom recognized as such. Government, by granting privileges to the minority of workers who are organized into unions, imposes a tax just as pernicious in its effect on capital formation as is any explicit tax. This is explained by the fact that the incentive structure of union organizations motivates myopic decisions. This is in contrast to the incentives built into the structure of private firms and corporations, incentives which reward those who give appropriate attention to the long-run consequences of current decisions.

As long as owners and managers of private businesses are free to allocate revenues between shareholders, employees, and capital investment in response to market forces, decisions will be made that promote capital formation and lead to long-run economic growth. Unfortunately, government regulation of labor relations has increasingly usurped business control over decisions relevant to capital investment, and passed that control to union officials. The result has been to lessen the attention business decisions pay to the future, to substitute excessive wages for appropriate capital investment, and to reduce the competitive vitality of major U.S. industries.

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