

Introduction

Labor accounts for some 70–75% of the GDP. Thus, any book addressing labor issues is potentially an important one. This book does just that, and from an economic point of view. However, it is not a textbook on labor economics. If you are looking for an explication of the backward-bending supply curve of labor, or for an explanation of the pattern of labor force participation, or for why labor accounts for some 70-75% of the GDP, you will have to look elsewhere.

Instead, *Labor Economics from a Free Market Perspective* is an ideological book and thus might serve as a secondary reading in a course in labor economics, or as one of several texts for an instructor who values this particular perspective. The phrase “ideological” has a bad press in some quarters, but etymologically it means, merely, that this volume takes a position¹ on ideas. And the position it takes may be read directly from the title of the book: It will look at numerous labor market issues from a vantage point of free enterprise or libertarianism. Its contention throughout is that if we as a society want to cure unemployment, raise real wages, and in other such ways improve this sector of our economy, we will base public policy on private property rights, the non-aggression principle and the law of free association. In the free and prosperous society everyone may act precisely as he pleases, provided, only, that he does not initiate violence against non aggressors.

With the exception of Chapters 5, 17, and 20, this book consists of previously published articles of mine. Therefore, gentle reader, you can expect some repetition. Hopefully, some other aspects of this collection will more than compensate for this, if you find that problematic. But I make no excuses for this possible shortcoming. My philosophy on this matter is that as long as an evil exists, I am going to keep hacking away at it in my writings. I feel as did Heinlein (1966, p. 25) when the Mooniacs kept throwing rocks at that military installation in Colorado² until it was utterly pulverized:

¹The opinions expressed in this book are solely those of the author and do not necessarily reflect the opinions of the publisher.

²“If three bombings on three rotations of Terra did not do it, we might still be throwing rocks in ‘77 — till they ran out of interceptors... or till they destroyed us (far more likely). For a century North American Space Defense Command had been buried in a mountain south of Colorado Springs, Colorado, a city of no other importance. During Wet Firecracker War the Cheyenne Mountain took a direct hit; space defense command post survived — but not sundry deer, trees, most of city and some of top of mountain. What we were about to do should not kill anybody unless they stayed outside on that mountain despite three days’ steady warnings. But North American Space Defense Command was to receive full Lunar treatment: twelve rock missiles on

there are some legislative enactments that are so truly offensive (unions, and union-spawned minimum wage laws surely come under this rubric) that they deserve severe approbation. As long as these institutions are still part of our economic lives, I will continue to toss intellectual hand grenades at them, again and again, and, yes, once again. This book represents, among other things, the negative manner with which I view these phenomena that prey on the weak and helpless, and yet, paradoxically and horrendously, are enthusiastically supported by their very victims.

I am encouraged in this behavior of mine by Mises (1976, Chapter 3), who said: “There cannot be too much of a correct theory.”³ As long as unions and minimum wage laws exist, I am going to keep writing about their evils. This is like tossing mortars over to the bad guys, the more the merrier, as far as I am concerned. I also obtain solace in from Hayek (1991, pp. 35–36) who says: “[I]n economics you can never establish a truth once and for all but have always to convince every generation anew.” And again (Hayek, 1960, p. 1) “If old truths are to retain their hold on men’s minds, they must be restated in the language and concepts of successive generations.”⁴

With this introduction to the philosophy underlying this undertaking, let me offer you an overview of its contents. Perhaps the most important thing for an economic theory to accomplish is to explain prices. Accordingly, we start off Section I of this book with material devoted to the determination of the price of labor, or wages. To give the story away, compensation for employees is based on how hard and smart they work, that is, their productivity (subject to appropriate qualifications that appear in the text). This depends, in turn, on the quantity and quality of capital goods at their disposal, which is based on savings and technological improvements, which emanates, ultimately, from how free is the economy, and how consistent is its legal system with private property rights.

Chapter 1 argues that information asymmetries in labor markets do not amount to a type of market failure where workers are not paid according to their marginal productivities. In Chapter 2 we cast doubt on the notion that “subsistence wages” exist. Chapter 3 takes a mainstream author to task for his charge that the market is “unfair” in its wage determination. Chapter 4 constitutes one of the exceptions to the rule that wages tend toward marginal revenue productivity: the time dimension must also be taken into account.

Section II is devoted to organized labor and starts off by establishing the case for regarding unions as incompatible with the libertarian philosophy in Chapters 5–7. Chapter 8 defends the “yellow dog contract” hated by all advocates of criminal unionism.

first pass, then all we could spare on second rotation, and on third — and so on, until we ran out of steel casings, or were put out of action... or North American Directorate hollered quits.” I owe this citation to Juan Fernando Carpio.

³I owe this citation to BK Marcus and Roderick Long.

⁴I owe this citation to Sudha Shenoy.

Chapter 9 offers a debate on this issue. Chapter 10 is a critique of a defender of organized labor.

In Section III the minimum wage law is eviscerated, at least to the best of my ability. Herein are some of my most apoplectic writings. Don't ask, but I am filled with loathing and disgust for this legislation, and every paragraph reeks with such feelings. In my view, the claim that the minimum wage creates unemployment for everyone with a productivity level below that set by this pernicious law is not a matter to be settled by empirical "evidence," although this point is illustrated again and again in econometric findings. Rather, it is a matter of pure logic, or praxeology; its denial is a veritable self-contradiction. Mainstream economists of a market orientation would disagree: For them, it is presumably a matter of empirical studies. But it is my contention that if you scratch a good neoclassical economist deeply enough, you will find a praxeologist, at least on this issue. How else to explain their vituperative reaction to Card and Krueger, economists who purport to show the "benefits" of minimum wage legislation to the unskilled? This is why I regard opinions on this issue as a sort of litmus test: Those who fail it, e.g., think that this law benefits poor workers, are not really economists at all, their prizes and PhDs in the dismal science to the contrary notwithstanding. Chapter 11 sets the stage with some introductory material. In Chapter 12 through 17, I make the case against this pernicious law and deal with several supporters of it.

Chapter 17 is one of those written specifically for this publication. In it I take to task sentence by sentence and even word by word, a petition signed by hundreds of economists to the effect that the minimum wage promotes the welfare of unskilled labor. Why such focus on this one document? Why do I reprint that petition, accompanied by all 650 signatories to it? Because this is a highly problematic document, and deserves all the negative publicity it can garner. When and if justice ever prevails in the profession of economics, all of its signatories will have to deal with the negative repercussions of their words. We have recalls for everything from cars to tires to toasters; why not for economists?⁵

Immigration, the subject of Section IV, is a traditional part of labor economics; it constitutes a contribution to the supply curve of labor. Let me summarize my position on the ethics of this issue. People have the right to be fussy, very fussy, about who they associate with. The law of free association is, after all, an integral part of the libertarian philosophy. Indeed, they have the right to be as selective in this regard as were the condominium owners in the 1990 movie *The Green Card*⁶ when they were making inquiries about the bone fides of the character played by Andie McDowell. If, in their

⁵When the latter misbehaved, that great philosopher Carmela Soprano said about her daughter Meadow: "There has to be consequences" (<http://www.tv.com/the-sopranos/toodle-fucking-oo/episode/26463/summary.html>). Just so in this case.

⁶<http://www.imdb.com/title/tt0099699/>

(unanimous) view, no Jews are “one too many” (Chapter 18), that is entirely within their rights.

However, this analogy between private individuals and their right to discriminate to their heart’s content on the one hand, and a country’s immigration policy on the other, only holds true given a crucially important proviso: Every inch of the nation’s territory must be *privately owned*. That is, *every* square inch of it. There can be no such thing as a public park, a public roadway, a public library, a public recreation center, a public concert hall, and so on. Nor can there be any unowned deserts or mountains or lakes or rivers or molehills. For if there are, there is nothing in the libertarian philosophy that would prevent newcomers, *immigrants most certainly included*, from homesteading them. Nor do I interpret publicly owned property as “really owned” by the citizens of the country. No, this is *stolen* property, and if the citizenry does not have the gumption to seize it back from their rulers and slave masters, then it is fair game for outsiders to do so. Libertarianism, in my view, presents a very stark alternative to the electorate: Embrace laissez-faire free enterprise in its entirety, that is, anarcho-capitalism (Rothbard, 1973, 1998), or suffer the slings and arrows, whatever they are, of a completely open border policy. Chapters 18–20 argue that the effects of open borders will not be all that negative, and take issue with several critics of this perspective.

In Section V we ask how redistributive justice applies to the case of reparations for past slavery (in economic parlance, this constitutes a theft of labor). I take the position that possession is properly “nine-tenths of the law” and thus that the burden of proof should rest with those who seek compensation for past thefts of labor (coercive slavery). However, that it is at least conceivable that this burden can be met, and, as there should be no statute of limitations of justice in the free society, there is indeed a case to be made for reparations for past slavery.

The subject of Section VI is fringe benefits. We cover worker’s compensation and unemployment insurance in Chapters 23 and 24, respectively.

Last but certainly not least is Section VII, devoted to other topics in labor economics. Herein some of the most interesting chapters in the book may be found. In the paper on homogeneity (Chapter 25), my coauthors and I make the case that a division of labor is so powerful it can exist even under the very stringent conditions whereby all human and non-human resources are exactly alike.⁷ Is academic tenure justified? My coauthor and I argue (in Chapter 26) that this academic practice constitutes, merely, a long-run contract, and that all such matters are best left to the market, after full privatization, of course, of all colleges, schools and universities. In Chapter 27 I debunk Prendergast’s claim of a labor market “failure”; that employees have too much of an incentive to butter up their bosses. Yet another supposed labor market failure is that workers will slack off too much

⁷My second coauthor agrees with me that most of the credit for this article should go to our third coauthor, who was only a graduate student when he made the point that eventuated in this paper at a Mises Institute seminar, over the strong objections of several faculty members with many years of seniority.

in the computer age; this one, too, is given the back of my hand in Chapter 28. And Chapter 29 defends paternalism in labor markets, when it emanates from voluntary agreements.

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