

On Block's Labor Economics

David Gordon

Ludwig von Mises Institute

dgordon@mises.org

*Labor Economics From a Free Market Perspective*¹ contains 29 essays by Walter Block. If I am not mistaken, seven further volumes of his papers are to appear. He is astonishingly prolific, and he is also well known for the large numbers of co-authors whom he has enlisted as collaborators. The present collection includes eleven co-authored papers, written with twelve different authors. The volume deals with a topic of major importance. Walter Block tells us that labor “accounts for some 70-75% of the GDP.” (xix) If so, it is vital for the economist to explain how wage rates are determined. For Block, the answer admits of no doubt. Wages on the free market are determined by the marginal productivity of the workers. Suppose a firm employs ten workers to perform the same sort of labor. Each will then receive approximately what the tenth worker adds to the product, i.e., each worker will receive the marginal revenue product.

Why is this so? Employers will not pay more than this, since it would not be profitable for them to do so. If an employer, tried to pay a lesser amount, competing employers would find it profitable to outbid the low payer; they would do so until the wage approached marginal productivity.²

Block shows himself alert to refinements of this picture. What the worker receives is not, strictly speaking, the marginal revenue product: it is the discounted marginal revenue product. Time preference accounts for the discount: The employer normally pays the worker immediately but must wait until the product is sold before he gets money himself. Because people prefer present goods to future goods, the employer gets a premium for waiting: equivalently, the employees suffer a loss because they do not wait. This is of course the Austrian, as opposed to the neoclassical view; and Block skillfully argues that time preference is a universal feature of action. “The fact that we choose to act in the present, when we could have waited, shows that we prefer goods, the sooner the

¹ Walter Block, *Labor Economics From a Free Market Perspective: Employing the Unemployable* (Singapore: World Scientific, 2008). All references to this book will be by page numbers in parentheses in the text.

² “More technically, below the alternative cost of MRP, namely the MRP that would obtain in the next best alternative to present employment.” (p.37, note 3)

better. . .By acting in the immediate future, instead of waiting for the more distant future, we also show ourselves as present oriented.' (p.39)

Block is characteristically aware of objections, and he always has a response. To the contention that wages are determined by bargaining power, Block answers that this cannot be taken as an explanatory ultimate. If wages are below the DMRP, then workers have more bargaining power; if wages are above this rate, then employers have more bargaining power; and if wages equal the DMRP, then neither side has greater bargaining power. Bargaining power drops out of the explanation: in Wittgenstein's phrase, it is a wheel on the machine that does no work. Many people who are not economists find the marginal productivity theory hard to grasp; and in a exchange with Boyd Blundell, a religion professor at Block's own university, Loyola at New Orleans, who insists on bargaining power as an independent force, Block patiently explains his position. "Prof. Blundell maintains that worker 'productivity is virtually irrelevant' to the setting of labor's compensation. Rather, it is driven by 'bargaining power.' But the latter depends almost entirely on the former." (p.115)

Block must overcome another objection. The process by which wages below the DMRP rise depends on competing firms. Only if a rival firm exists will there be a chance for lower wages to be bid up. What happens if there is only one buyer of labor services, i.e., a monopsony exists? Block responds this situation is most unlikely to arise in the free market. "Even on the heroic assumption that monopsony is itself a logically coherent analytic construct. . .outsiders will enter the market to take advantage of the profits earned by the monopsonist; in the absence of entry barriers, monopsony, even if it could be established in the first instance, cannot long endure." (p.150) He himself rejects the entire concept, following the classic discussion of monopoly by Murray Rothbard in Chapter 10 of *Man, Economy, and State*.³

If Block is right, wages cannot be increased beyond the DMRP. Efforts to push wages higher will generate unemployment, since employers will not be willing to lose money by paying someone more than he is able to contribute to the product. Labor unions have as the principal purpose to force wages above the market level, and Block has little use for them. He does not deny that workers have a perfect right to form associations and to quit a job in concert. He rejects the view of W.H. Hutt that it is inherently collusive to do so. "But this [the po-

³ Murray N. Rothbard, *Man, Economy, and State* (Auburn: Ludwig von Mises Institute, 2004), Chapter 10.

sition that collusive actions by unions exploit the community] only shows that there is all the world of difference between economists who favor a system of laissez-faire capitalism, on the one hand, and those who favor a system of national or state capitalism on the other.” (p.71) But beyond this, workers’ associations have no right forcibly to impede others from engaging in business with a firm that the workers wish to bring to heel. In particular, they cannot legitimately interfere with customers’ accesses to the business by picketing or use force against workers whom the employer hires to replace them. These workers, Block maintains, should not be stigmatized as “scabs”. Also to be deplored are laws that compel employers to deal with unions.

In practice, Block thinks, all unions engage in such wrongful activities. He does not deny the possibility of a union that acted in entire accord with freedom of contract but professes never to have found one. Accordingly, he finds nothing amiss with “yellow dog” contracts that require non-membership in a union as a condition of employment. “The Yellow Dog Contract, in addition to safeguarding employer and employee rights of free association, also serves as a remedy against union inflicted economic disarray and violence against innocent people and their property. Long live the Yellow Dog Contract. Bring it back. Now.” (p.110)

In their efforts to raise wages above the free market, unions also support minimum wage laws; and legislation of this type arouse our author’s well-justified ire. Minimum wage laws hurt the poor and unskilled. The laws make it unprofitable to hire, or to continue in employment, workers whose DMRP is below the minimum wage.

Why do unions, whose members normally earn well above the minimum wage, support these laws? They do so to restrict competition. Faced by high wage demands from unions, employers will be tempted to hire lower skilled workers to replace the union members, even if they have to increase the number of people on their payroll to get the job done. Minimum wage laws hinder their ability to do so.

The great majority of economists agree with Block that minimum wage laws cause unemployment. Unfortunately, a number do not. In particular, a petition signed by 350 economists, including such luminaries as Kenneth Arrow and Joseph Stiglitz, claimed that minimum wage legislation was a good idea in present conditions. But what about unemployment? These economists do not deny that sufficiently high minimum wages would cause unemployment — imagine, e.g., a

minimum wage set at \$10,000 per hour. They claim, though, that that if the rate is moderate, the law will do no harm and may do some good.

Block is outraged. If the argument that minimum wage laws cause unemployment is correct, then even a “moderate” rate will result in unemployment, so long as the rate is above the DMRP of some workers. Block thinks it is a disgrace that these economists have ignored elementary principles, and he reprints the entire list of signers to call attention to their misdeed. “One of these days justice will prevail, and the eminent reputations of all those who signed the document will be called into question.” (p.160)

Block must here face an objection; and, as usual, he has an effective answer. “Your theory is all well and good”, the objector might say, “but careful empirical studies show that minimum wage rates do not have the dire effects you claim. What of Card and Krueger?” This study compared employment in fast food restaurants in New Jersey, which enacted a minimum wage law, with Pennsylvania, which did not. The student found no significant employment effects resulting from the law.

Block responds with a detailed criticism of their often-cited study. It is based on an inadequate sample; it suffers from other statistical failings; and it ignores the effects of earlier federally imposed minimum wages. Though best known as an Austrian economist, Block received his training in neoclassical economics and is thoroughly familiar with econometrics. His criticism of Card and Krueger illustrates what he regards as a fundamental point. The theorems of economics are established through deductive reasoning, starting from the axiom of action. (This is of course the view of Mises in *Human Action*.) As such, they cannot be refuted through empirical tests. If a test result goes counter to an established theorem of praxeology, there must be a mistake somewhere. “Even more daunting is that fact that their [Card and Krueger’s] findings are contrary to economic law. . . On the level of pure theory, then, it must count against CK that — apart from the economically dubious monopsony argument — they felt no need to account for their anomalous findings.” (p.150)

The collection includes papers from a wide variety of other topics as well, including immigration and reparations; but I have concentrated on a central theme. In all the papers, Blocks writes from a firm commitment to libertarianism; and he displays a complete mastery of technical economics. It is a powerful combination.