Labor Market Disputes: A Comment on Albert Rees' "Fairness in Wage Distribution"

Walter Block

Economics Department, College of the Holy Cross, Worcester, MA 01610, USA

Abstract

Albert Rees criticizes neoclassical labor economics for paying too little attention to fairness and utility function interdependence. As a result, he claims, this theory cannot fully come to grips with wage determination as it actually exists in the real world. The present author takes issue with Rees, and attempts to defend traditional labor economics against his criticisms.

1. INTRODUCTION

Albert Rees, author of the canonical textbook in labor economics (1973), looks back on a long career in this field, and doesn't much like all that he surveys. On the contrary, in his present view, the neoclassical wage theory with which he has long been associated is deficient in at least one respect: It fails to take into account the effect of how others are doing, payment wise, on the general determination of wages. That is, traditional theory overemphasizes considerations such as labor productivity and insufficiently takes into account how interdependence affects wage determination. Although Rees explicitly warns against being interpreted as "recanting" his distinguished contributions to neoclassical labor economics (1993, p. 251),1 one may perhaps be forgiven for interpreting him in precisely this way. This is so particularly when he states that he doesn't "think that neoclassical theory is wrong... but it is incomplete" (p. 251). The lacunae? It fails to incorporate into the analysis "fairness," and "interdependence of utility functions" (p. 247).

What are the specifics of Rees' arguments? He acknowledges that in neoclassical analysis, wage determination is explained by the interaction of a supply curve based on worker utility considerations and a demand schedule based on marginal revenue productivity. But then he relates a
series of anecdotal experiences, not from the academic world, but rather from his career as a member of wage stabilization boards, as a corporate director, university provost, and college trustee: "In none of those roles did I find the theory I had been teaching for so long to be the slightest help" (p. 243).

II. FACES OF FAIRNESS

Why not? For one thing, because in the real world workers have a passion for "fairness," something not contemplated in textbook labor economics. And of what does "fairness" consist? It "involves the concept that if workers in one union or group receive a certain wage increase, the workers in another union or group are entitled to the same increase" (p. 244). So strong is this passion for justice on the part of organized labor that "a union in the retail food industry allow(ed) an employer to close a statewide group of stores rather than agree to a wage increase smaller than that just received by its traditional comparison group" (245).

Now this is more than curious. One problem is that Rees speaks only in terms of changes in wages, not of their initial levels. This runs counter to the usual assumption that the former is the dog, the latter only the tail. After all, unless there is a theory of the equilibrium level of wages, we shall never know whether a given change is a move toward or away from the point at which supply and demand intersect.

Another difficulty arises in using organized labor as a paradigm case of fairness. Unions are the only nongovernmental institution in society to be vested with the "right" to ban others ("scabs") from competing with them (Block, 1991). Suppose that there were two gangs of armed robbers, and one of them managed to mulct an extra $100,000 out of a hapless victim. Thereupon the other, in response, wrested the same amount from other innocent prey. Would we be tempted to describe the actions of the latter as "just" or "fair"? Hardly. All that could be said, at best, of the actions of the second group of criminals was that they had "kept pace" with those of the first.

John L. Lewis's coal miner's union shut down pretty much an entire state. After his depredations, West Virginia was an economic basket case for decades. From this we are to deduce fairness? And this applies as well to the San Francisco plumbers local which insisted upon "me too plus a dollar" (p. 245). If another union received a pay boost, this one, which sought parity with it, would insist on the same increase, plus $1. It must be nice to wield so much coercive power, but what this has to do with fairness is rather elusive.

Speaking of gangsters, it must be recognized, as Rees does not, that there is more than a superficial resemblance between these organi-
izations and labor union leaders: each of them is guilty of using violence, or the threat of violence, to gain their ends. In the case of the latter, although many commentators have interpreted their actions as being aimed at employers, more sophisticated ones (Reynolds, 1984; Petro, 1957; Block, 1991; Williams, 1982) have pointed out that they are more often directed at competing workers.\(^2\) To characterize the desires of these entities as "fair" is thus almost a travesty of justice. Yes, "unions may regard themselves as entitled to the same absolute (or percentage, it matters not one whit) increase previously won by another union" (p. 245), but their mere subjective desires have very little relationship to fairness.

It is important to keep the distinction between normative and positive economics in mind. This is necessary at any time in economic public policy analysis, but it is crucial when matters of "fairness" are raised. The definition employed by Rees is something akin to equality. If one employee receives a raise, the other should get it too. But why is this necessarily "fair?" Consider the biblical parable, "The Workers in the Vineyard" (Matthew, 20). Here, the employer paid the same amount to a person who worked a full day as to the one who started only in the late afternoon. Was this "fair?" It was, at least according to one common sense definition of that word, that which holds as fair any and all "capitalistic acts between consenting adults" (Nozick, 1973). Certainly, this is the view of the Bible, which gives the definitive reply of the employer to the disgruntled workers who think they are hard done by:

"'Listen, friend,' the owner answered one of them, 'I have not cheated you. After all, you agreed to do a day's work for one silver coin. Now take your pay and go home. I want to give this man who was hired last as much as I gave you. Don't I have the right to do as I wish with my own money? Or are you jealous because I am generous?'" (Matthew, 20).

Rees informs us that concern with comparisons are by no means a monopoly of the employee side of the equation. Employers, too, look at such matters in this way. For example, consider the firm which refused to "give the red-blooded (nonunion) Americans who built this company less than those radicals in the union" (p. 245). But why is it unfair to pay off moral debts? This employer obviously felt positively toward the nonorganized sector of his work force for past support. Perhaps, too, he looked to them for backing in the future. Rees' implicit view that it was improper for him to pay both types of employees equally, when he was not forced to do so, would appear to imply that gifts and/or inducements to good future behavior are per se unfair.

It is the same with regard to executive salaries. According to Rees, "when executives or directors set salaries they refer to surveys of
salaries in comparable companies or institutions” (p. 245). This may well be so. But purely as a matter of positive economics, there is always that little matter of marginal revenue productivity lurking somewhere in the background. If executive’s salaries (or those of anyone else for that matter) deviate from MRP, there are strong market forces which tend to bring these two figures back toward equality with one another. It seems strange to have to mention this in connection with an article written by Albert Rees, but if wages fall below MRP, the quit rate will rise; failing that, other firms will scoop up these labor bargains. This market force is powerful enough to explain the fact that growers in the U.S. and Canada, thousands of miles away from Mexico, go down there every year to take advantage of the cheap labor there. They “exploit” low cost workers in that country by bidding their below market wages closer to productivity levels. If wages are above MRP on the other hand, a firm is courting bankruptcy. It is only when they are equal that there are no market forces unleashed to change labor market conditions. Top management can refer all it wants to other, supposedly comparable salaries, but if this process leads to pay which deviates from productivity contributions, it is untenable in the long run.

Of course “most organizations state that they would like to be in the upper half of what they regard as the relevant salary distribution” (p. 245). People will say anything on such surveys; if such appraisals were accurate, we would all be driving a Mercedes. The only “disturbing . . . macroeconomic implications of these preferences” (p. 245) would appear to be cost push inflation. But as the monetarists have shown (Friedman and Schwartz, 1963; Rothbard, 1983; Mises, 1971), price rises do not result from wage push; rather, they are caused by excessive monetary creation.

This analysis applies, as well, to those who whine that their wages are not as high as their long seniority would suggest. States Rees of such a person “‘Why do I make less than Y when I have given this outfit devoted service for twenty years, while he was only hired last year?’” (p. 246) The answer, which seems to have escaped Rees, is that sunk costs are sunk. Past contribution usually matters little, except insofar as it accurately predicts future usefulness. But the key is future expectations; that is why the new kid on the block is paid more. Merit, of course, is an entirely different matter, despite Rees’ conflation of the two. If merit is interpreted as a proxy for productivity, then the market will tend to reward it.

Consider in this regard Rees’ numerical example. A full professor with 20 years of satisfactory service earning $52,000 is appalled to learn that a newly-minted Ph.D. was offered $38,000. In his view, the proper differential between full and assistant professors would entitle him to at least $60,000. States Rees:
"This is an example of the general proposition that wage inequities must be remedied by raising the wage that is too low, and not by lowering the one that is felt by others to be too high" (p. 246).

A more confusing analysis would be hard to imagine. First, this appears to be a non sequitur. From what principle did we derive the conclusion that the way to promote equity is to raise a "too-low" wage, not to lower one that is too high? Even on his own grounds of equity as fairness, this by no means follows. Maybe it is better, more "fair," to do the very opposite; or to lower the one that is too high, while at the same time raising the one that is too low, until a midpoint is reached for both. This, at least, seems to have the advantage of symmetry, but in the absence of any criterion vouchsafed us we are flying in the dark.

Second, a university setting is perhaps amongst the most unfortunate of choices to illustrate the workings of an economic system, in that there are few if any profit and loss incentives which can impose discipline on the wage relationship. In a public university, if salaries bear no relationship to productivity, the threat of bankruptcy hardly looms. Subsidies courtesy of the taxpayer can paper over any number of economic sins. And even in the private sector, large endowments are likely to shield decision makers from paying for the error of their ways.

Third, this analysis bears an improper level of subjectivity. "Lowering the one that is felt by others to be too high," indeed. Are mere "feelings" as to others' wages supposed to play any meaningful role in economic analysis? If so, the sky is the limit. Anyone can announce himself as vexed at any economic phenomenon, thus casting doubt on its "fairness." Fourth, but not least, just how was it determined that there was an inequity in this particular case? What is the criterion? How can the proposition be tested? Rees, unhappily, is silent on all these issues.

III. FAIRNESS AND WAGES

Undaunted, however, Rees leaps to his next point: "Employers do not insist on fairness—workers and their unions do" (p. 246). Now this is rather one sided. It is truly rare, in any dispute, that one party is totally on the side of the angels. Even worse, this claim stands contradicted out of Rees' own word processor, for it was he who referred to the employer who refused to "give the red-blooded (nonunion) Americans who built this company less than those radicals in the union" (p. 254). And if this isn't an attempt to be fair, nothing is.

Upon reading Rees, one comes to the conclusion that he really isn't referring to "fairness," at least not as this word is used in normal speech. Instead, he seems almost to be alluding to reducing controversy,
or unhappiness, or, perhaps even better, dispute creation. This is seen in his contrast between the new worker and the experienced, long-serving one, who are both offered a wage deemed unfair. In the former case, "he will simply decline the offer," but in the latter there will be created a "sense of grievance" (p. 246). Interpreting Rees in this manner—he is interested in the positive economic explanation of labor conflict, not in the normative discussion of equity—at least has the advantage of providing another set of lenses though which his contribution can be understood.

The next thicket to ensnare Rees has to do with the interdependence of utility functions. According to his analysis, neoclassical economics must be modified in order to incorporate this insight. But this is hardly accurate. On the contrary, economists have been aware of the fact that we tend to be affected, positively or negatively, by the well-being of others since at least the time of Smith (1817) and Canard (1801). Stigler (1965, pp. 100-101) refers to:

"The inclusion of the quantities consumed by other people in the utility function of the individual. Thus one's pleasure from diamonds is reduced if many other people have them (or if none do!), and one's pleasure from a given income is reduced if others' incomes rise. This line of thought is very old, but it was first introduced explicitly into utility analysis (by Fisher) in 1892."

Apart from this aspect of the history of thought, Rees is somehow led from his focus on interdependence to the view that "envy is a local phenomenon while compassion is often a more distant one." That is, we are usually envious of the person "at the next work station or in the next town, while the beneficiary of charity may be half a world away" (p. 247). Yes, true enough, this sometimes occurs. But it cannot be denied that there is also such a thing as local charity, collected in the same town as it is disbursed, and that many Americans are envious of the Japanese (and vice versa), each of whom live thousands of miles away from the other. The point is, interdependence of utility functions is a theoretical construct; it does not logically imply the identity of the persons who will enter into a given individual's utility function, nor whether the welfare of these others will impact this utility in a positive or negative direction.

Next consider Rees' example of secretarial pay:

"On Monday, you inform your secretary that she has received a pay increase of $20 per week. On Tuesday, she discovers that all the other secretaries in the organization have received increases of $30 per week. Clearly, she will be
less happy on Tuesday than she was on Monday. Moreover, it is highly likely that she will be less happy on Tuesday than she was the previous Friday—that is, she would prefer that no one get an increase to getting a smaller one than her fellow workers” (p. 247).

There is little doubt that the secretary will be less happy on Tuesday than she was on Monday. She would likely prefer both absolute and relative wage hikes, unless, of course, the pay received by her co-workers enters very heavily indeed into her own utility function. On the other hand, if she was the only one to receive a heftier pay envelope last month, and feels that everyone else in the office resents her, or if she feels her head near the chopping block due to her “excessive” salary, then on the contrary she may be delighted with the scenario depicted by Rees.

Moreover, even if Rees' is a true analysis of the secretary’s reaction, it doesn’t show a lacuna in traditional labor economics. As this author himself concedes, “the general idea of interdependence of utility functions” has been used reasonably widely in the economics literature (p. 247).5 How, then, will incorporating it into neoclassical labor economics make good any serious oversights?

Further, how does the much vaunted “unfairness” enter into the picture? If fairness requires absolute (or proportional) equality, then the secretarial pay example may indeed depict an inequitable situation. But under other assumptions, as we have seen, this need not be true. Consider the case where all the other secretaries are nieces of the boss. Is nepotism necessarily unjust? If so, wouldn’t this mean that Christmas or birthday gifts are also unfair, given that the boss will likely bestow them on his relatives, not strangers? That is, how are we to even conceptually distinguish Christmas gifts to nieces from pay raises to them. Yes, one is a once-and-for-all occurrence (at least for this year) and the other takes place every week, but surely there is some rate of discount that can equate them.

IV. EXECUTIVE COMPENSATION

From secretarial salaries we move to remuneration in the executive suite. As “the contribution of an executive to the output of the firm is extremely hard to measure, equity considerations ... will loom large.” These, in turn are driven by comparisons “with other executives in the same firm and with executives in the same function at other firms in the industry.” In other words, all corporate officers rise or fall (mainly the former) together, thanks, in part, to the fact that “compensation for these positions is public information.” (p. 248). This is why salaries
above the glass ceiling have begun to catapult. The "conscience" of the people in charge of setting these astronomical levels "is almost the only demand-side constraint that exists for executive pay" (p. 249).

Sensible as this may sound upon first reading, there are difficulties. This analysis, first off, appears to contradict Rees' explanation of union wage setting. There, he referred to a "linkage." He maintained that "... wages in different occupations in an enterprise are tied together in an accepted structure that is costly to disturb ... probably because in a union situation information on occupational rates is available to everyone" (p. 248). But he just got finished proclaiming that such knowledge, "public information," was also available in the executive suite. Yet in the latter context, there are, seemingly, no barriers at all to continuing salary inflation, except, perhaps, for "conscience." How can two very different results be explained by the very same (informational availability) causal conditions? Rees does not suggest that union wages are on an uncontrolled upward roller coaster, as in the case of corporate officers. How can this be if the same explanatory factor is in operation in both cases?

No. We shall have to seek elsewhere for our explication. The reason executive salaries are on an uncontrolled flight path is because our legal system functions so as to overpower the market forces that could otherwise have nipped this in the bud. It is almost as if we are being overrun by rabbits, after having engaged in a protracted and thorough wolf kill program, and now are wondering at the spread of these long eared furry creatures.

Well, who is the wolf of the piece, the person who could have called a halt to escalating top managerial salaries, the one who as a matter of fact was engaged in just this activity, when he was imprisoned? His name is Michael Milken (Manne, 1966; McGee and Block, 1989). This entrepreneur was involved in raising vast sums to purchase poorly managed business firms. The corporations with the worst excesses with regard to top management salaries were precisely the ones whose stock prices most seriously underestimated their true values. Wall Street undervalued them expressly because of these uncontrolled raids on the corporate till, e.g., outrageous managerial compensation levels. In other words, the firms guilty of the behavior Rees so correctly denigrates were the ones subjected to "attack" by Milken, in a series of "unfriendly" corporate raids.

These takeovers were of course only "hostile" to the members of the bloated executive suites, rich beyond the dreams of avarice. For long-suffering stock and bond holders, these takeovers were extremely "friendly." Nevertheless, the corporate mandarins were able to convince the legal powers that be that Milken's fund raising was based on "junk" bonds, that he was guilty of "insider trading" and "fraud." As a result, this "wolf" was incarcerated, the "rabbits" in the executive suite are
gorging themselves on their illgotten gains, and people like Rees (see also Berle and Means, 1932) are running around (to mix our metaphors even further) like chickens without a head in their attempt to explain this phenomenon.

Nor is Rees unaware of the Milken debacle. He even goes so far as to mention that sainted company Drexel Burnham Lambert, not as an example of the cure for the problem, but rather as a case in point of “conspicuous cases of large executive bonuses in firms losing market share, or even...about to go bankrupt” (p. 249). Now the person with the largest “executive bonus” in all of business history was none other than Michael Milken, employee of Drexel Burnham Lambert. But the reason for its financial difficulties have nothing to do with Milken’s very high level of compensation. On the contrary, he was worth every penny to them. The explanation, rather, is the illicit acts of the various attorneys general, who both prosecuted and persecuted Milken. In terms of our analogy from the animal kingdom, then, it is as if Rees is blaming the wolf for being a rabbit.

We need not fear unduly, however. The system of profit and loss is still grinding away. If the career of one “wolf” is terminated with semi-extreme prejudice, others will arise to take his place. The economic axiom that wages tend to equal marginal revenue product is still operational. If top managers are given salaries in excess of their contribution to the production process, this necessarily sets up forces which will tend to obviate such practices. Governments can place obstacles in the path of such a process, but they cannot block it entirely. The share prices of such corporations will be pushed below what their potential earnings (based on more accurate executive salaries) would otherwise have entailed. This will set up incentives for others to purchase these companies at bargain prices. Stopping Milken, and thereby frightening all other would be Milkens will make this process more difficult, to be sure. But just as the “War Against Drugs” will always fail because with every “success,” profits in this enterprise are driven up, thus encouraging even more illegal entrepreneurial activity (Boaz, 1990; Judson, 1974; Thornton, 1991; Block, 1993), so too will the machinations of these internal corporate raiders (e.g., the unconstrained looting executives) be brought back down to earth.

Nor should there be any mystery about why salaries at state colleges, National Institutes of Health, and Congress (p. 249) should be pegged at nonequilibrium levels. The market forces which tend to equate wages and MRP can only operate in the private sector, where penalties are paid when this economic axiom is violated. As this simply does not take place in the governmental sector, we cannot expect wage rationality to occur there.
V. MARKET FORCES AND SALARY STRUCTURES

An appreciation of this fact is what is missing from Rees’ analysis. Consider now the case where one professor receives an offer from a comparable outside institution and threatens to leave if it is not matched by his present employer. Yes, this sets up all sorts of problems:

“The other members of the department are now likely to feel unfairly treated whichever option is chosen. If the offer is matched, the salary differentials within the department will be viewed as inequitably large. It is not matched and the faculty member leaves, the remaining members will feel that they are being paid less than they could earn elsewhere” (p. 250).

The problem is that few, if any, universities function under the sort of bottom line thinking familiar in business. There are no profit and loss sanctions, or at least they are greatly attenuated. As a result, the deans and college presidents who make salary offers, operate outside of the usual market constraints. Why should we expect rationality from such a system, any more than we could from the planning authorities of the Soviet Union or Cuba? (Boettke, 1990; Hoppe, 1989)

In the event, however, even a modicum of common sense might be expected to come into play. Take Rees’ two cases. First, if the outside offer is matched, those who still labor under the old lower salaries will indeed view the new differentials as “inequitably large.” If so, they have an alternative: attain another legitimate offer, and use it to bargain for their own raises. If they cannot, then all talk of inequity is just so much blather. Similarly, for the second case, if the outside offer is not matched, and the faculty member leaves. Again the less attractive (in the sense of lower alternative cost) members of the department may feel “they are being paid less than they could earn elsewhere” but in the absence of evidence for this contention, namely, a bone fide outside offer, their claim is at best unproven.

Thus it is simply untrue to assert, as does Rees, that “pay equity is a goal that is constantly being pursued but is never reached. In this respect, it is not unlike market equilibrium” (p. 250). On the contrary, in the case of market equilibrium, there are forces pushing the economy toward this point. True, we may never reach it, because other exogenous changes requiring a new equilibrium may well arise long before the old one is attained, but at least these forces are always in operation. In the case of “equity,” in contrast, there are no such analogous economic forces. Even more problematic, no one, Rees specifically, has ever managed to unambiguously define “equity,” at least not in a way that does not imply voluntary accord. That is to say,
we already have a perfectly good notion of justice in wage settlements: the salary to which both employer and employee agree. It is incumbent on those such as Rees who challenge this view to come up with a coherent alternative; so far, this has not been done. This analysis applies as well to Rees' two other cases in point: when "a new member is hired into a department at a salary substantially above those already at the same rank because this salary was required to recruit him" and the question of whether a university should "maintain the same top salaries across different disciplines even when the outside market pays different salaries" (p. 250). If universities are forced to function in a market the ordinary factors of supply and demand will solve these "problems." If not, there is no nonarbitrary way in which this can be done. This is something that the societies of Russia and Eastern Europe are now in the process of learning. Unfortunately, it has been forgotten by some western academics.

VI. TWO-TIER WAGE STRUCTURES

The next candidate for inequitability is the "two-tier wage structure." Yes, it is indubitable that these phenomena "afford a test of the importance of the concept of fairness in wage determination" (p. 251). It is indeed difficult to imagine anything more inequitable than the employer paying identical workers the same salary. But matters become more clear when we reflect on the fact that the employer is only likely to acquiesce in any such system against his will. This is because the firm will always be tempted to fire higher-cost workers and replace them "lower tier" employees. But this is no challenge to neoclassical economic analysis or to ordinary morality. The reason for this patently unfair structure is easy to discern. It comes about as the result of the operation of an inequitable institution, namely, unionism.

Actually, two-tier wages make explicit the unfortunately implicit illegitimate power of unions. If otherwise homogeneous workers are compensated at two very different levels, to what other institution besides coercive unionism can we point as an explanation?

A strong analogue to rent control (Tucker, 1990) may be found in the two-tier wage system. It would make perfect sense, given that rent control is a given, to allow tenants "protected" by this legislation to sublet their apartments. This would reduce if not eliminate most of the negative effects of this law: the excess demand, the failure to maintain and upkeep, and the low vacancy rates. The only problem with this plan is that it would make all too explicit the forced transfer of wealth from landlord to the tenant who is allowed to sublet. That is why this proposal has proven unsatisfactory to both sides: to tenants, because the issue of totally repealing rent control would then "naturally" arise, and
to the landlords, since the original theft they were forced to suffer would not be ameliorated.

The surprise, then, is not that the two-tiered system has not already disappeared; Rees correctly envisions this occurring "when the lower paid workers become a majority in the bargaining unit" (p. 251). Given that this is so problematic, the surprise is that it was ever allowed to occur in the first place.

VII. HOMOGENEOUS LABOR

The simplest neoclassical assumption in this regard is of course that all labor is equally productive. But Rees does not tax traditional economists with so simple a model. He realizes that it is "perfectly consistent with neoclassical theory to have two or more classes of labor, each homogeneous within itself, and treated as a separate factor of production" (p. 251). However, he charges, that even this level of sophistication will not suffice for the conditions

"actually facing the large firm... At this extreme, the assumption of homogeneous labor breaks down utterly, and salary determination will necessarily involve an element of arbitrary decision making or of bargaining" (251).

My view, in contrast, is that neoclassical theory is by no means so feeble. At a purely formalistic level, "two or more classes of labor" can cover as many employees as could possibly be employed by the modern firm, no matter how large. Of course, if there were a separate class of homogeneous labor for each individual person on the payroll, there wouldn't be too much of a point of talking about classes in the first place. But, as a practical matter, it is unlikely in the extreme that amongst the literally tens of thousands of employees of any large corporation there wouldn't be found some homogeneities. Yes, each human being is unique, and beloved of his friends and family in a special way. Surely however there would be some jobs where the heterogeneities would be so small as to disappear for all intents and purposes.

But, even in the extreme scenario of no homogeneity whatsoever implicitly pictured by Rees, it would not still not follow that salary determination would be arbitrary. To be sure it would be much more complicated in a world of total and complete heterogeneity; certainly it would be more expensive to tailor salaries to individual workers under such extreme assumptions. Arbitrariness, however, is an attack on the economic axiom that wages tend to equal MRP. This tendency would still hold, as shown by assuming it not to hold. As stated before,
whether wages deviate from MRP on one side or the other, there are incentives brought to bear which tend to bring the two into equality, at least in equilibrium.

VIII. CONCLUSION

There may well be flaws in neoclassical labor economics; to doubt this even as a possibility is to leave the realm of science and to enter that of faith and creed. But Rees has not succeeded in showing any basic defects. However, he is to be congratulated at least for calling what might otherwise pass for verities into question. Surely, his skeptical attitude is one that bears emulation.

NOTES

1. All otherwise unidentified citations refer to Rees (1993).

2. True, unions do “good works.” They contribute to charity, run bowling leagues, help in the political and educational process, are active in promoting pensions. However, the Mafia, too, is well-known for its support of religious and other public spirited concerns. It is also undeniable that unions, not gangs, are legal institutions in the U.S. and elsewhere. But to equate this with fairness or justice is to commit the sin of legal positivism: whatever the law states is right. To see this error, reflect on the fact that murderous “white citizens councils” were legally recognized entities in the post civil war confederate states, and that the Nazi Party was a legal entity in Germany from 1933 to 1945.

3. More technically, below the alternative cost of MRP, namely the MRP that would obtain in the next best alternative to present employment. See Block (1990).

4. I owe this citation to Frank Petrella.

5. Given this, it is difficult to understand his complaint that neoclassical economics must be modified in order to incorporate the interdependence of utility functions.

6. Rawls (1971) and members of the public choice school (e.g., Buchanan and Tullock, 1971; Buchanan, 1979, p. 196; 1990, p. 9) have attempted to define equity by resort to the “veil of ignorance.” Equity is defined as that allocation of whatever (wealth, income, salaries, beauty, etc.) that would have been chosen had no one known what levels of these traits or goods would have been assigned to them if we were to start off again, de novo. But why should this be equitable? Surely risk preferrers, neutrals and avoiders will make very different choices in this regard. By definition, they cannot all be “equitable,” it for no other reason than that they will all be different. (Tais holds if equity is defined in terms of static income distributions, as is typically done. If it is defined in terms of a just process, then of course very different outcomes can all be seen as equitable.) But unless all but one of these three perspectives on risk can itself be shown to be “inequitable,” there is no hope that this mental experiment will be able to pinpoint a proper distribution. See Nozick (1974) for a devastating critique of the “veil of ignorance” ploy.

7. We have already seen that if the employer agrees to a two-tiered wage system, or even more so, initiates it, as in the case of voluntary nepotism, or the parable of the vineyard, this is not necessarily “unfair.”

8. About the only thing it would not ameliorate would be the reduced new construction rates, but this is because old investors-owners would still remain expropriated even with this amendment to the law. Similarly, would be newcomers to this industry might reasonably fear that the same treatment would be imposed upon them, in the future.
REES BIBLIOGRAPHY


