In his celebrated opus *The Economics of Welfare*, Professor Pigou depended on collective bargaining to prevent the "cutting or nibbling" of wage rates. In fact, he sounded like a socialist who is firmly convinced of the power of employers to "exploit" their weak and defenseless workers, especially through piece-wages. In his own words, "When a bad employer succeeds in 'nibbling' the rates, his success makes it difficult for his competitors to refrain from following his example, and is apt, therefore, to start a cumulative movement. But it is not necessary that piece-rates should be fixed by individual bargaining. In this fact the solution to the problem may be found. For collective bargaining furnishes a guarantee against the kind of nibbling which is really exploitation, and also makes it easy to provide machinery—whether joint-committees or jointly appointed rate-fixers to adjust particular rates."[9]

There Is No Margin of Indeterminateness

If eminent economists from Adam Smith down to our age professed such forceful doctrines it cannot be surprising that multitudes of lesser writers joined in the chorus, that nearly every man of public affairs continues to identify himself with the eminent economists, and every union spokesman proudly echoes the doctrines. But no matter who may sponsor the precept, how often it may be repeated, and how popular it may be, it cannot possibly stand a critical analysis. It contradicts basic economic knowledge and clashes with economic reality.

The doctrines of labor's disadvantage and deliverance by collective bargaining are "short-cut doctrines" that promise instant relief and improvement through collective force. They probably spring from sympathy for the hardships of the poor which is a noble passion of the human heart, and from the most beneficial of all the affections—hope—which is the only universal cure. They promise an exciting shortcut to income and wealth without the pain of extra effort and labor and without the arduous task of capital formation that makes human labor more productive. And lest we forget, they bring popular applause for "goodness" and "benevolence" although they pave the way for so much folly and suffering.

There are no shortcuts to economic production and income. Wage rates for any kind of labor, from complex mental labor to simple physical exertions, are determined by the anticipation of the service they render to human well-being. In particular, they are determined by anticipation of the price that can be obtained for the increment of goods and services expected from the employment of the worker. Economists

call this increment the "marginal" product that determines the compensation for every kind of labor. It can be made to rise through greater labor exertion and improvements in the quality of labor. It may be raised with the help of more capital and application of more productive methods of production. But it cannot be made to rise through collective bargaining. There is no "margin of indeterminateness" that can be appropriated by militant labor unions. There is no "no-man's land" in which the biggest battalions determine the outcome of the battle.

In a private-property order labor is treated like any other factor of production bought and sold on the market. Employers need to buy materials and supplies, tools and equipment, and all kinds of specific labor. To stay competitive and serve his customers best, an employer must buy the needed factors at the lowest possible prices. But the prices he offers must be high enough to secure the necessary supplies from the sellers, outbidding all other competing buyers. He may make mistakes in his bidding for the factors of production. He may bid to pay more than the going rate, which raises his costs of production and invites offers in excess of his needs. If his bids are lower than the market price, he may not be able to secure the needed supplies. A businessman who continues to make such mistakes, i.e., incurs higher costs than his competitors or fails to obtain the needed supplies, will, in time, cease to be a businessman. Someone else more capable of judging prices will take his place.

Employer Combinations Are Ineffective

Even if employers were to combine openly or tacitly to keep wages below the marginal rate, to which Adam Smith alluded, their sinister efforts would be destined to fail. If they would pay less than the full rate, they would render the employment of labor more profitable. New entrepreneurs seeing new opportunities for profits would appear on the market and bid for more labor, which would bring wage rates right back to the marginal productivity of labor. Even if employers would manage to prevent the arrival of newcomers through institutional barriers, such as government licenses and permits, their open and tacit combinations would soon fail because they themselves would be tempted to buy more labor at such bargain rates. They would be tempted to expand their activities, bidding for more labor in any way conceivable. After all, there may be small employers who would like to grow, some who are young and eager, some who are poor and desperate, perhaps on the brink of bankruptcy. They all may want to hire profitable labor in order to reap the benefits. If they cannot raise