An important consequence of the rise of neoliberalism to political power in many nations has been a significant erosion of corporatist industrial relations arrangements and labour market regulation. How have neoliberals made the case for such radical reforms? This chapter examines the analysis of labour and collective bargaining developed by neoliberals during their long years in the political wilderness and which subsequently emerged as an influential policy discourse after the 1970s. It first seeks to pinpoint precisely what is distinctive about the neoliberal understanding of labour and then traces in more detail the various dimensions of this radical ideological innovation, encompassing neoliberals’ understanding of the economic relationship between trade unions and employment, inequality and inflation; of the distinction between the state and civil society; and ultimately the neoliberal attempt to dissolve the language of class altogether through the sponsorship of alternative discourses about ‘human capital’ and producer and consumer interests.

The rejection of the classical inheritance

The most influential classical and neo-classical economists believed that the buying and selling of labour was a distinctive sort of economic transaction. In *The Wealth of Nations*, Adam Smith famously observed that workers were more vulnerable than the owners of capital when it came to bargaining over wages:

We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate. We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate.

*(Smith, 1904[1776]: 68)*
Many years later, Alfred Marshall’s seminal *Principles of Economics* echoed Smith by enumerating several respects in which the sale of labour usually differed from the sale of other goods in a market economy. These included: a pervasive inequality in access to marketable skills because of factors beyond the worker’s control, chiefly differences in parental economic and cultural resources; the fact that it was necessary for a worker to be present in the workplace to sell their labour, thus creating preferences about the nature of the workplace environment and setting limits to labour mobility; and the length of time needed for workers to acquire skills and training, even though unforeseen changes in the market might very quickly render those same skills outdated. Fundamentally, Marshall agreed with Smith that the sellers of labour often faced ‘special disadvantages’ because of ‘the closely connected group of facts that labour power is “perishable”, that the sellers of it are commonly poor and have no reserve fund, and that they cannot easily withhold it from the market’. As a result, said Marshall, it was ‘certain that manual labourers as a class are at a disadvantage in bargaining’ (Marshall, 1920[1890]: 322–8, quotes at 326, 327).

All of this led Marshall and the other founding fathers of economics to take a nuanced view towards trade unions. For example, most classical economists believed that trade union activity was necessary to prevent short-run wages being depressed by employer power below the equilibrium level; to raise wages during periods of high profits; and to balance the dominant social and economic power of employers (O’Brien, 2004: 341–2). To be sure, this sympathetic stance was often balanced by anxieties about unions becoming too powerful or encouraging acts of violence or social disruption. But the tradition of market economics that had coalesced by the middle of the twentieth century was nonetheless one that broadly accepted the need for workers’ combinations to counterbalance the asymmetries of power and wealth that were produced by market forces.

One of the distinctive features of neoliberal economic thought, as it emerged from the middle of the twentieth century, was that it denied that the sale of labour constituted a special sort of transaction and, accordingly, espoused a much more uncompromising view of the ethics and economics of trade unionism (and of labour market regulation more generally). This break from the market economics of an earlier era was sometimes consciously articulated by neoliberal theorists, for example by the South African-British economist, W.H. Hutt, whose pioneering volume, *The Theory of Collective Bargaining* (1975[1930]), explicitly set out to critique the view of the labour market and workers’ combinations articulated by older liberal authors such as Smith, John Stuart Mill and Marshall. Hutt argued that these earlier analyses rested on ‘vague phrases’ about ‘the “disadvantage” of uncombined labour’ and the ‘indeterminateness’ of the price of labour which a more rigorous and consistent application of market principles could dispel (ibid.: 24, 79). In other works of neoliberal theory, this historical departure from market liberal tradition was downplayed or left undiscussed and a searching criticism of trade unions was presented as entirely in keeping with an enduring liberal lineage that could be traced back to Adam Smith.

Nonetheless, the novelty of this analysis of the nature of labour represents one of the most important respects in which we can speak of a ‘neo’-liberal ideology taking shape during the 1950s and 1960s and emerging as an influential political discourse during the 1970s and 1980s (see Jackson 2011 and 2015 for more detailed discussions, which this chapter draws on; see also Steiner 2009). Neoliberals denied that unions equalized the bargaining power of labour and capital, since they believed that the owners of capital were in principle as vulnerable to competition as workers. Employees, they argued, in fact enjoyed considerable choice and mobility with respect to employment opportunities, while employers found themselves confronted by powerful labour interests willing to use coercive force to achieve their goals. The
key political implication of the neoliberal denial that labour was a special sort of commodity was that legislative intervention to equalize the bargaining power of employers and employees in fact privileged trade unions, creating mighty state-sanctioned interest groups that hampered the operations of the market and threatened the very legitimacy of the state. Unions were re-described as monopolies that sought to control the price of labour in order to charge a price for it in excess of its competitive level. This characterization of union activity sought to debunk the perception, fed by the popular historiography of the labour movement, that unions had emerged organically from the struggles of ordinary workers to protect themselves from the exploitative power of big business. This attempt to disenchant labour history encompassed several distinct criticisms of workers’ combinations.

### Unions, unemployment and inequality

The fundamental economic criticism of trade unions made by neoliberals, and its wider political significance, is often obscured amid the general cacophony of the debate between left and right over industrial relations. The essential point that leading neoliberal economists sought to drive home in their analysis of collective bargaining was that, far from protecting workers’ interests, unions increased unemployment and income inequality. Although this was largely an empirical claim, this argument tended to be couched in more abstract terms as a logical outcome of the application of basic economic principles. Since unions raised the wages of those already in a certain job, it followed that employers would control their costs by employing fewer workers and would be reluctant to take on additional workers (raising unemployment). This would increase the pool of labour available for lower paid, non-union jobs, driving down wages in these sectors of the economy. Unions were therefore, on the neoliberal account, primarily devices whereby privileged groups of workers advantaged themselves relative to other groups of workers. As Friedrich Hayek put it:

> The interest of those who will get employment at the higher wage will therefore always be opposed to the interest of those who, in consequence, will find employment only in the less highly-paid jobs or who will not be employed at all.  

*(Hayek 1960: 270)*

The empirical evidence to support this claim was much less well explored in neoliberal writings compared to its grounding in economic theory. Yet this did not prevent figures such as Hayek from venturing their own empirical conclusions. The British unions, Hayek wrote, ‘have become the chief cause of unemployment’ and of ‘the falling standard of living of the working class’. Unions, he added, ‘are the main reason for the decline of the British economy in general’ (Hayek 1984[1978b]: 62, 52). Hayek also predicted ‘that the average worker’s income would rise fastest in a country where relative wages are flexible, and where the exploitation of workers by monopolistic trade union organisations of specialised groups of workers are effectively outlawed’ (Hayek 1984[1978b]: 54). But these claims were not supported by the systematic investigation of empirical evidence. Hayek did not explain how he knew that the unions were ‘the chief cause of unemployment’ in Britain (Richardson 1997; Jackson 2011: 277–9). Empirical economic studies have, in fact, painted a more nuanced picture of the impact of trade unions on labour markets and income inequality. A robust cross-national statistical finding, for example, is that unions narrow pay dispersion within workplaces and industries, and reduce income differentials between middle-class and working-class jobs, all of which empirically dominate the disequalizing effect of unions stressed by neoliberals, namely
Neoliberalism, labour and trade unionism

that unions raise the wages of certain groups of workers relative to others (Card et al. 2003; Viser and Checchi 2009). Likewise, what is termed the ‘collective voice’ functions of unions – their role in providing employee input into workplace conditions and organization – can also have a positive impact on economic efficiency – for example, by reducing staff turnover (Freeman and Madoff 1984).

While these aspects of the neoliberal critique of unions are open to economic debate, its political implications have nonetheless been highly consequential. Politicians sympathetic to neoliberalism appropriated the purported connection between unemployment and unionization in an effort to reassign responsibility for employment levels from the state to the labour movement itself. If it is primarily labour market ‘rigidities’, such as high union density, that prevent employers from taking on more employees, then promoting higher levels of employment will naturally require efforts to break down such barriers to the efficient buying and selling of labour. Conversely, on this account much less attention would then need to be devoted to the promotion of employment through traditional Keynesian remedies aimed at supporting aggregate demand. In political terms, this offered neoliberal politicians an important argument for a more aggressive stance towards the powerful unions of the post-war period (Tomlinson 2012).

Unions and inflation

The relationship between trade unions and inflation has been the cause of doctrinal disagreement within neoliberalism. Neoliberals are, broadly speaking, committed to the monetarist insight that inflation is a result of excess growth in the supply of money and can therefore only be controlled by restricting the expansion of the money supply. This makes the reduction of inflation squarely the responsibility of the state, as the only institution capable of controlling the growth of the quantity of money. How, then, do trade unions fit into the neoliberal account of inflation? One influential answer, articulated with particular vigour by Milton Friedman, is that they do not. Friedman argued that, by aiming to control price rises via wage negotiation with unions, states, in fact, seek to divert attention from their own responsibility for inflation. In Friedman’s view, union wage bargaining had no effect on the overall price level in the economy; it was only through control of the money supply that inflationary pressures could be reduced (Friedman 1966). Other neoliberal theorists offered a more complex story. Hayek, for example, agreed with Friedman about the monetary roots of inflation, but argued that the reason states were so willing to relax their monetary discipline was because of the colossal political pressure placed on them by powerful trade unions. In Hayek’s view, this revealed a political fix at the heart of Keynesian economics. Hayek argued that Keynes had started:

from the correct insight that the regular cause of extensive unemployment is real wages that are too high. The next step consisted in the proposition that a direct lowering of money wages could be brought about only by a struggle so painful and prolonged that it could not be contemplated. Hence he concluded that real wages must be lowered by the process of lowering the value of money. This is really the reasoning underlying the whole ‘full employment’ policy, now so widely accepted.

(Hayek 1960: 280)

The basis of Keynesian economics was therefore (in Hayek’s view) a capitulation to the power of organized labour and a recourse to an inflationary fiscal policy to reduce the real value of wages instead. In contrast to the ‘Friedmanite’ perspective on inflation, the ‘Hayekian’ one
presented governments as fearful of the social and political power of unions and, accordingly, sought to integrate organized labour into the causal chain that forced up prices. The difference was not a large one, since both sides agreed that unions caused unemployment and exacerbated social conflict, and both denied that traditional Keynesian remedies were capable of tackling inflation (see Haberler 1969 for a discussion of where the similarities and differences lie). But Hayek’s account of the relationship between organized labour and Keynesian theory offered a more fleshed-out political economy of inflation than Friedman’s more technocratic approach, and delineated a more confrontational prospectus for action to mitigate union power. It was therefore seen by some political actors and commentators as a profound diagnosis of the social tensions inherent in the Keynesian settlement, finding a ready audience among political elites during the acrimonious industrial relations of the 1970s and 1980s (see, for example, Jay 1974).

The strong state

Neoliberal scepticism about trade unionism was not just animated by economic considerations. It was also underpinned by political fears about the threat that unions posed to the authority and legitimacy of the state (see Gamble 1994 for an analysis of this point in relation to the emergence of Thatcherism). As Hayek’s discussion of the inflationary consequences of strong trade unions illustrated, neoliberals believed that the growth of powerful labour interest groups would corrupt government policy and ultimately weaken state sovereignty. In principle, neoliberals were enthusiastic about the importance of spontaneous, voluntary associations (as opposed to coercive state activity) in fomenting a vibrant liberal society. But they made a sharp distinction between voluntary and coercive forms of association, and firmly assigned modern trade unionism to the latter category. While neoliberals always stressed that trade union organization was not in itself impermissible, they were sharply critical of the specific form that it had taken in the twentieth century. The problem with modern trade unions, neoliberals believed, was that they forced individuals into taking collective action that they did not personally consent to; they used tactics such as strikes, boycotts and closed shops that were coercive and sometimes violent; and they were artificially sustained in these activities by labour legislation enacted by the social democratic state. As Hayek put it in an interview in 1978:

Oh, I have no objection against unions as such. I am for – what is the classical phrase? – freedom of association, of course, but not the right to use power to force other people to join and to keep other people out. The privileges which have been granted the unions in America only by the judicature – in England by law, seventy years ago – that they can use force to prevent people from doing the work they like, is the crux, the dangerous aspect of it.

(Hayek 1978a: 90)

Neoliberals therefore saw unions as presenting a challenge to the liberal state that was quite distinct from that presented by other forms of organization (Wedderburn 1989: 8). As a result, their focus on the problems caused by trade unionism could appear disproportionate and neglectful of similar issues that arose in relation to, for example, business corporations or local government, both of which neoliberals strongly endorsed, and neither of which were obviously non-coercive or lacking in special legislative protection. Nonetheless, neoliberals pressed the argument that it was unions, in particular, that threatened the fundamental ability of the state to act as a neutral arbiter in economic affairs, standing apart from sectarian interests in the economy and enforcing general rules of competition for all to abide by. Protected by law, unions were at liberty to force
governments to accommodate their special demands and to drag the state into areas of decision-making that were better left to market forces than government fiat.

**Human capital**

A further strand of neoliberal thought took the radical step of attempting to abolish altogether the distinction between labour and capital. Economists such as Theodore Schultz and Gary Becker argued that the skills and knowledge acquired by workers should be conceptualized as a form of capital investment, aimed at increasing the future income flow to an individual from their labour, and analogous to the spending on machinery and equipment undertaken by owners of more traditional forms of capital. Schultz and Becker sought to demonstrate that this growth of ‘human capital’ had been underestimated by economists and accounted for a considerable portion of twentieth-century economic growth (Schultz 1961; Becker 1993[1964]). This notion that ‘people invest in themselves and these investments are very large’ was in part a fruitful economic theory that opened up a range of interesting research questions for economists of various partisan stripes (Schultz 1961: 2). Indeed, there was an obvious respect in which such an analysis could even be turned in a social democratic direction, since it could be used to argue that substantial public investment in education and healthcare would enhance economic dynamism and efficiency.

Nonetheless, the language of human capital could be – and was – deployed in a fashion that was more congenial to specifically neoliberal imperatives. Understood not as an economic hypothesis that captured one aspect of the labour market, but rather as a comprehensive description of the drivers of human behaviour, human capital theory pictured the individual, in the words of Michel Foucault, as ‘an entrepreneur of himself’ (Foucault 2008: 226). On this account, individuals are chiefly focused on a competitive struggle for economic advantage, constantly seeking to increase the value of their ‘assets’ and thus enhance their future flow of income; other domains of life are relentlessly subordinated to this overriding purpose and eventually colonized by the language of capital and competition (Brown 2015: 36–7). Perhaps the most radical implication of human capital theory, however, is that the category of labour, and associated ideas of class, are displaced from social analysis altogether by the expansion of the concept of ‘capital’ to include the very economic interests that purportedly stand in opposition to it.

**Producers and consumers**

In a similar vein, neoliberals asserted that it was through advancing consumer interests rather than producer interests that individual freedom and economic efficiency would be most thoroughly realized. As one of the pioneers of the Chicago School, Henry Simons, put it:

> All the grosser mistakes in economic policy, if not most manifestations of democratic corruption, arise from focusing upon the interests of people as producers rather than upon their interests as consumers, i.e., from acting on behalf of producer minorities rather than on behalf of the whole community as sellers of services and buyers of products.

*(Simons 1944: 2)*

The ‘public interest’ was therefore construed by neoliberals as being synonymous with the aggregated interests of consumers, whereas producer groups were regarded as seeking to advantage themselves at consumers’ expense. Drawing on public choice theory, neoliberals argued that the intensity of the interest felt by producer groups in their own affairs would, without
safeguards, lead them to dominate policy-making on their trade, since consumers’ interest was usually much more fleeting and less well organized. ‘The public interest is widely dispersed,’ argued Milton Friedman,

in consequence, in the absence of any general arrangements to offset the pressure of special interests, producer groups will invariably have a much stronger influence on legislative action and the powers that be than will the diverse, widely spread consumer interest.

(Friedman 1962: 143)

‘Producer interests’ of course encompasses both corporate and labour interests. A lot of work within the broad field of public choice theory has focused on both, with, for example, Mancur Olson concluding that large companies and trade unions are equally damaging to economic growth (Olson 1965: 141–8; 1982: 143–4). But while some of the early writings of neoliberals had taken a similar stance, by the 1950s and 1960s neoliberalism focused its attack on producer interests solely on organized labour. The post-war exponents of a revitalized market liberalism were convinced that business was embattled in the face of the new social democratic state and its allies in the labour movement (Jackson 2010: 141–5; 2011: 268–9). Gottfried Haberler summarized this view: ‘in our times industrial “monopolies” and “oligopolies” do not have the same power, strength and iron discipline that many unions have developed in many countries’ (Haberler 1972: 34).

The liberal society envisaged by neoliberals was therefore one in which individuals were able to exercise their free agency as consumers, choosing between the variety of goods and lifestyles offered by a market economy. As producers, however, a strict managerial hierarchy was to prevail: the choice that individuals exercised as workers was whether to accept an offer of employment or to leave an existing job in search of a new one. Neoliberals anticipated no further formal role for the exercise of free choice in the day-to-day running of businesses, which were to be subject to the authoritative decisions of managers. This vision of choice within the labour market ultimately underestimated the structural barriers within a capitalist economy to finding and keeping jobs and the extent to which the hierarchical control of the firm constituted a constraint on liberty (Ciepley 2004). But it was a vision that appeared attractive to some politicians, business interests and, ultimately, voters during the 1980s and 1990s, as neoliberalism took on powerful trade unions in the name of breaking the producer interests that purportedly held back economic progress.

Conclusion

There are many reasons for the decline in the status and power of organized labour in the industrialized nations over the last few decades: the changing structure of mature capitalist economies, notably the large rise in service sector employment; the expansion of the world’s labour supply triggered by globalization; the increased unemployment levels in the advanced economies after the end of the social democratic ‘golden age’. While neoliberalism can be connected to all of these economic developments, and thus to their boost to the power of employers to hire and fire, its impact has been most palpable in shaping a cultural shift that has remade the fabric of industrial relations in many places. The neoliberal ideas discussed in this chapter have reframed the way in which political and economic elites conceptualize the labour market, fostering greater hostility on the part of both the state and employers towards collective bargaining and labour regulation. The old analysis that the labour market systematically favours the interests of
employers over employees and so requires the state and unions to act as countervailing powers to protect employees from exploitation – a view that, as we have seen, can be traced back to Adam Smith – has been significantly weakened at elite level by the rival neoliberal discourse of sectional producer interests threatening the consumer. The result has been legislation that hampers the ability of unions to organize and reduces social protections, and the emergence of a more self-confident, uncompromising business class that is much less interested in collaborating with workers’ organizations and the state in a corporatist model of capitalism. Yet, as powerful economic analyses of the rise of economic inequality after the 1970s have made clear, it is these political choices as much as structural economic shifts that have led to the greater concentration of income and wealth in the hands of higher earners, as they have significantly reduced the bargaining power of employees in the workplace and in the formulation of public policy (Krugman 2007; Piketty 2014; Atkinson 2015). Any putative new political economy that emerges from the 2007–8 global financial crisis will therefore require a reckoning with the neoliberal vision of labour if it is to seriously challenge the ascendancy of the 1 per cent.

References