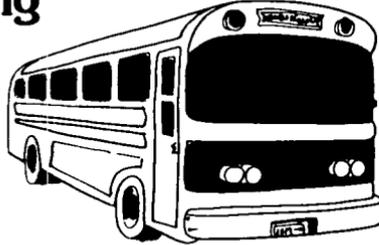


Leave the Pricing to the Market



LAST FALL a friend of mine working as a ticket agent for Greyhound in Atlanta told me a strike was likely. The bus company, he said, felt the workers' wages were too high and, contrary to long-standing tradition, sought to reduce them.

On both accounts, my friend was right. Rejecting the company's final wage offer, the union struck. Not content to remain idle, the workers picketed. But the bus company was not idle either. Vowing to provide service on a limited basis, it offered jobs to all takers, at reduced rates of pay. The bus company's offices were besieged by eager job applicants—53,000 in five days.¹ That response seems to validate the company's view that wages were, indeed, "too high."

Professor Shannon teaches in the Economics Department, Clemson University.

Of course, the workers' complaint that wages were "too low" does not lack merit. With the average cost of a new home running close to \$100,000 and the official level of poverty at about \$10,000, average annual pay and benefits to Greyhound bus drivers of about \$35,000 do not seem excessive.²

Clearly, in such a dispute, the two parties will disagree on what is proper. Who is right? Who should arbitrate? Why not let the market serve that function? If the bus company was having trouble hiring competent drivers and ticket agents, then it ought to pay more to attract workers away from alternate jobs. But if many people covet the jobs—even when the bus company makes wage reductions—the market is telling us that for them no better job opportunity exists. Wages in the bus

business should fall, not so much to help the company earn extra profit as to provide more openings for aspiring workers.

If car dealers must cut prices to empty their lots of inventories, then most people would agree that the previous prices were too high. Dealers had been charging more than their cars were worth. Similarly, if the harvest of a new crop makes fruit prices fall, then it follows that the old ones were excessive.

Of course, our government keeps the price of such items as milk above the free market level and then buys up the surpluses, using taxpayers' money. In much the same way, the union had driven wages up to a point where there was a surplus of people wanting to drive busses.

If the price of milk were permitted to drop, sales would rise and surpluses would disappear because more people can afford to buy fresh milk at lower prices. Fewer will go hungry. By the same token, lower wages can make workers more attractive and increase the number of jobs. Surely, just as price supports help dairy farmers earn more income, unions may help their members earn more pay. But other workers pay the price in terms of lost job opportunities. Open markets spread benefits among many people; closed markets confine benefits to a few.

Yet the full story has not been

told. In the business of bussing, it hasn't been just the workers who have stifled competition. Just as in the case of milk, it is the government which has played a role in keeping incomes up. Thanks to the Interstate Commerce Commission, the bus companies haven't faced much rivalry. Originally set up in 1887 to regulate the railroads, the ICC was granted similar power over trucks, busses, and other modes of transportation by Congress in the 1930s.

Monopoly Privileges

In the same fashion that labor unions keep workers from competing for jobs and lowering wages, the government regulatory agency kept new bus firms from competing for passengers and cutting prices. Of course, the bus companies had to pay a price for their monopoly privileges, for they were forced to serve some areas that provided little business. But these routes had to be subsidized by other customers who paid higher rates on more popular routes, just as taxpayers subsidize dairy farmers.

When the Greyhound workers went on strike last fall, a national TV newscast vividly illustrated the plight of some customers. A number of them interviewed in a small Georgia town had lost their sole link to Atlanta. One woman depended on the bus to take her to a teaching job

40 miles away; another needed regular transportation to obtain medical treatment. A story painting several similarly dismal pictures of distress in Kentucky appeared in *The Wall Street Journal*.³

But in the Georgia case, the strike was not the real cause of deprivation. As the news report pointed out, Greyhound was about to abandon service to many rural areas as a result of deregulation. Indeed, permission to discontinue service came just after the strike began.⁴

Who is really to blame for the loss of this service? The company apparently finds that the cost of providing such service is greater than the revenues from it. If the labor union had not insisted on such high wages, perhaps the bus company could have covered its costs and maintained service. Now that the ICC is allowing new firms to enter the bus business, perhaps some new company will be able to provide service to these people.⁵

In the end, the routes that survive will be the routes that pay, not those selected by some bureaucratic process. Just as airline deregulation had provided many customers with lower fares and better service, we can anticipate the same kind of outcome for busses and their passengers.

Adam Smith wrote back in 1776: "Consumption is the sole end and purpose of all production."⁶ Almost

160 years later another famous British economist, John Maynard Keynes, wrote almost the same thing: "All production is for the purpose of ultimately satisfying a consumer."⁷ Politicized procedures that favor workers or profits subvert the process. With regulators in the driver's seat, the workers and the company may be better served. But the consumers will likely get a better product at a lower cost if we leave the pricing to the market. ☉

—FOOTNOTES—

¹"Greyhound Collides Head On With Its Union," *Business Week*, November 21, 1983, p. 47.

²"Greyhound Vows to Resume Service in 2 Weeks as Thousands Seek Jobs," *Wall Street Journal*, November 4, 1983, p. 5; "Bus Stop," *Time*, November 14, 1983, p. 89.

³Bill Richards, "Walkout at Greyhound Highlights Vulnerability of Small, Rural Towns," *Wall Street Journal*, November 15, 1983, p. 37.

⁴David Secret, "Greyhound Can Cut Back Ga. Routes," *Atlanta Constitution*, November 11, 1983, p. 1-C.

⁵"Deregulation Will Take Bus Lines on a Rough Ride," *Business Week*, July 11, 1983, pp. 66, 68. See also, Lindley H. Clark, Jr., "Some Lessons from Airline Deregulation," *Wall Street Journal*, November 22, 1983, p. 35.

⁶Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, Random House, 1937), p. 625.

⁷John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), p. 46. For some further commentary on consumption as the purpose of economic activity, see Charles N. Stabler, "How Economists Think About World Trade," *Wall Street Journal*, November 28, 1983, p. 1.



Stewards of the Candle, Keepers of the Flame

THE incessant attrition of the Remnant, coupled with an obvious and concomitant decay of civilization, calls forth general thoughts of the consequences of morbidity and mortality, and particular concern for the concept of stewardship. All human beings realize that this earthly journey necessarily possesses a beginning and an end, and that during this pause in the inexorable gulf of time, each person acquires intellectual and spiritual things of value, if not material goods.

Some perceptive individuals reflect upon the severe constraints imposed on mankind by the regulatory state and seek to release us all from these fetters of the Leviathan; their legacy may consist of wise words or material property which they wish to dedicate to the enhancement of

the freedom philosophy and the resultant surcease from human bondage. It is to these individuals alone that I address this essay from my solitary perch as an attorney who practices law with the combined purpose of representing individuals in their quest for liberty and, in so doing, enabling me to indulge in my first love, the study of the foundations of the moral private property order.

Stewardship countenances trust. A good steward wisely employs that which has been entrusted to him so as to achieve the ends directed by the creator of the trust. The virtuous steward must never substitute his judgment or his purposes for those set forth by the trust creator. In this tract, several types of stewards merit discussion: First, those persons who create value as a heritage for the future ("trustors" or "settlers" in legal parlance) and second, those individuals charged with the

Mr. Foley, a partner in Schwabe, Williamson, Wyatt, Moore & Roberts, practices law in Portland, Oregon. He is a Trustee of The Foundation for Economic Education.