

Chapter 2

What's Wrong with Efficiency and Always Low Prices

Introduction

In this chapter I want to challenge the fundamental assumption of economics as it is currently understood and taught. The key assumption as I understand it is that a society should use the tools of economics to maximize the production of scarce goods and resources. A society that does that will be maximally efficient and given that resources are scarce a society ought to be as efficient in its economy as it can be. In the more formal language of economics a society should be Pareto optimal. A society is Pareto optimal when you cannot make someone better off without making someone worse off.

I can also put my thesis in ordinary language. In this chapter, I wish to challenge the notion that in economic terms we should always do the most efficient action—the action that will squeeze the most resources out of the economic system or that will result in lower prices to consumers thus enabling consumers to buy more goods and services.

As I see how these assumptions are playing out, I believe that a society ought not be as efficient as it can be. Economics should provide the tools for all individuals to have a better life. Often we ought to make someone worse off economically in order to make someone else better off. I also want to argue contrary to those who want to be neutral about what people choose economically that some choices or economic ends are objectively better than others. Although comments like this will surely infuriate most economists, I will try to show that consumers behave inefficiently and for good reason. To twist a phrase, “Economists maximize, does anybody else.”

My challenge to traditional economics takes place within a larger discussion about economics waged by philosophers, political scientists and some economists over the past 30 years or more. However, I am raising an even more radical critique of traditional economics as I will show below.

Before building my case a number of caveats are in order. First I am not waging a full scale attack on efficiency. Often, perhaps usually, efficiency is something we should seek to achieve. For example, we should continue to improve the efficiency of our automobiles, heating systems, and electrical appliances so that they are more

energy efficient. Fossil fuels are getting scarce and they will run out. We should be as efficient as possible in their use. So I wish to make clear at the outset that my critique of efficiency is a limited one.

In the 1990s several philosophers were concerned with the commodification of certain things that had not been commodified before. For many feminists the classic case of an illegitimate commodification is prostitution, where sexual intimacy which is normally freely given, becomes a service that can be purchased for money. However, the concern of these philosophers extended well beyond sexual intimacy. They noted that many goods that were not commodities before had recently become commodities. Moreover they noted that prominent thinkers were arguing for the commodification of things that would have been totally off the table a decade or so earlier.

For an excellent example of this work, see Margaret Jane Radin's *Contested Commodities*.¹ Radin challenges the idea that people should be allowed to sell body parts like one of their kidneys, for instance. The selling of kidneys is allegedly widespread in parts of Asia, especially India and also in some Central and South American countries. In addition, Radin also challenges the practice of surrogate motherhood. Gary Becker and Richard Posner have proposed that there be a market in babies, namely that babies should be bought and sold.² They argue that a market in babies would provide babies to those who most want them which would be good in and of itself. Such a market scheme would also dramatically reduce the number of abortions because now mothers would have a reason to bring the fetus to term since a baby has economic value. In other words a market in babies would increase efficiency. Radin's book is an extended attack on all these practices and ideas. Her fundamental arguments are based on issues of justice but the details of her account are beyond the scope of this chapter.

My argument has a relation to this discussion since I would challenge the value of efficiency that the proposed market in babies would bring about. However, my challenge to efficiency goes beyond the fact that babies should not be treated as commodities. I agree that there is too much commodification. But I want to argue that even with legitimate or accepted commodities, there is too much emphasis on getting commodities cheaply. There is too much emphasis on efficiency. Thus my critique is more radical than Radin's.

Other critics have argued that human beings are not simply rational economic actors. Behavioral economists have challenged the rational actor assumption and some have even won the Nobel Prize in Economics for their research.³ The challenges

¹ Radin, Margaret Jane. (1996). *Contested Commodities*. Cambridge: Harvard University Press.

² See Posner, Richard A. (1992). *Economic Analysis of Law*, 4th ed. Boston: Little Brown and Elizabeth M. Landes and Richard A. Posner. (1978). "The Economics of the Baby Shortage," *Journal of Legal Studies*, Posner later pointed out that he did not advocate a market in babies. See his "Mischaracterized View" *Judicature* 321 (1986).

³ Herbert Simon may have been the father of behavioral economics. He won the Nobel Prize in 1978 for his work on decision making in organizations. In 2002 David Kahneman also won the Nobel Prize in Economics. Other prominent behavioral economists include Robert Shiller, Richard Thaler and Amos Tversky.

by economists to the “rational actor” thesis are based on empirical work about how human beings behave. The central argument of these economists is that human beings do not behave as rational actors. I have been greatly influenced by the work of these economists and their research has significantly changed the nature of the discipline. But this empirical work is not the concern of this Chapter.

Elizabeth Anderson has provided a normative critique of the rational actor model- a critique that has been influential among philosophers.⁴ Anderson and Radin would both agree that there are plural goods such that different plural goods cannot be commensurately exchanged. For example, Anderson believes that neither women’s labor nor a clean environment should be treated as commodities. However, Anderson wants to go beyond the claim that certain goods should not be treated as commodities. Anderson’s goal is “...to formulate a new theory of rationality and value...”⁵ She believes that rationality involves “a matter of intelligibly expressing our varied concerns to others.”⁶ There is much to admire in Anderson’s work but my goal here is not to add to that particular discussion.

Other critics have argued that human beings have what you might call dual personalities. Sometimes what they want as consumers is different from what they want as citizens. Mark Sagoff has made this important distinction in the discussion of environmental ethics.⁷ One of his concerns is how to make people act and buy green. In his discussion, he recognizes that human beings have dual roles as consumers and as citizens. The consumer in us seems reluctant to go green, but the citizen in us often endorses a green agenda. The task is to find ways to give the citizen more priority. Again I think Sagoff is correct in making this distinction and a part of this essay can be seen as an endorsement of giving more priority to our role as citizens. But I wish to go further. I want to argue that even as consumers we ought to be less concerned with always getting the most out of “scarce” resources, or of always getting things at the lowest price.

With these caveats in mind, it is time to say what it is about the demand for efficiency that I find suspect.

The Problem

To make this discussion less theoretical, let us consider the Wal-Mart phenomenon. Wal-Mart’s philosophy epitomizes the kind of philosophy that I wish to challenge. Wal-Mart’s best known advertising slogan is “Low Prices Always.” Wal-Mart is one

⁴ Anderson, Elizabeth. (1993). *Value in Ethics and Economics*. Cambridge, MA: Harvard University Press, The journal *Ethics* had a special section of its V. 106 #3 April 1996 issue devoted to Anderson’s book. See pages 508–554.

⁵ Ibid., xii.

⁶ Ibid., xiii.

⁷ Sagoff, Mark. (1988). *The Economy of the Earth*. Cambridge: Cambridge University Press, 7–8.

of the most successful companies in the world.⁸ Wal-Mart's website reports \$419 billion in sales in fiscal 2011. Wal-Mart has 9,700 retail stores in 28 countries. It is the world's largest private employer with over two million employees. It is the largest retailer in the world. Additional statistics on Wal-Mart are provided by Online Marketing Trends.⁹ Wal-Mart has 3,600,000 fans on Facebook. Americans spend \$36 million per hour at Wal-Mart. 90 % of Americans live within 15 miles of a Wal-Mart store. Worldwide, Wal-Mart's profits were \$40,000 per minute. 200 million people a week make purchases at Wal-Mart.

Obviously Wal-Mart's commitment to "Low Prices Always" is not without its costs. An important point for the argument in this Chapter is that not every community wants a Wal-Mart. Wal-Mart may bring lower prices and with that a presumed increase in efficiency because people in a community with a Wal-Mart will have more money to spend that they did before. So why would any community turn Wal-Mart down?

One possible reason for this willingness to accept inefficiency is that lower prices at the retail level lower the wages of all persons working in retail trade where Wal-Mart is a legitimate competitor. For example, in California, supermarkets have claimed that in order to be competitive with Wal-Mart superstores they have had to lower the salaries and benefits of workers. In the first decade of the twenty-first century unions at Safeway furiously engaged in a long and bitter strike. 70,000 workers were involved. However, the strikes were to no avail. Wages at grocery stores in California and elsewhere when faced with Wal-Mart competition have fallen.

Note that we have an issue of efficiency here. I have assumed in the discussion above that all things considered having Wal-Mart with its low prices will provide more purchasing power for the citizens in proximity to the Wal-Mart (enable people to enjoy more goods that they have been able to achieve in the past). Yet the citizens in a few of these commodities do not want the efficiency that Wal-Mart brings. They are willing to have less in order to keep Wal-Mart out. Are these citizens simply being irrational as traditional economic theory would maintain? I think not. Indeed I think the citizens in these communities have an insight that I wish to expand upon.

Some Observations from Home and Abroad

I was first led to this discussion by my international travels, especially in Japan, during the first decade of the twenty-first century. Japan is a service oriented economy par excellence. At the hotel, I could not help but notice the official greeters and the people standing by ready to offer tea. I also noticed that there was no line to check in.

⁸ <http://www.onlinemarketing-trends.com/2011/02/size-of-walmart-statistics-and-trends.html>, Downloaded February 12, 2012.

⁹ <http://www.onlinemarketing-trends.com/2011/02/size-of-walmart-statistics-and-trends.html>, Downloaded February 12, 2012.

Indeed from an American perspective the hotel had too many people waiting for people to check in and certainly no need for all those greeters. There is no doubt in my mind that any American MBA would recommend that the number of people at check in could be reduced—indeed reduced dramatically. By the way the MBA graduate would also note all the flowers, especially the artful ikebana. No need for that extravagance. Also let the people checking in pour their own tea if the hotel really thinks it needs tea. All these extra services and especially extra people takes away from profit. That profit could be put to work elsewhere in a more efficient way.

Normally my only experience with airports in Japan is arriving by then Northwest at Tokyo's Narita Airport. However, once I had the opportunity to fly domestically from Tokyo to a regional airport in northwest Japan. Again there was an abundance of people to help us board the plane and an abundance of people to greet us on arrival. Although the flight was a short one—well under 2 h, a meal was served in coach. Since my ticket was paid for by my hosts, I can only estimate that the flight cost about \$300. A similar flight in the United States might be had for little more than \$100 although of course with no meals and fewer people (and in many cases a fee for checked luggage). I assume that if JAL wanted to be more profitable (efficient) it would do better to cut the service and the meals and lower the ticket price to what a similar flight would cost in the United States. But I think it is fair to say that neither the hotel nor JAL would think of following any of this advice.

Although Japan is at one end of the extreme, there is general agreement that you get more service and attention on foreign airlines than on domestic airlines. My wife and I took an Air France coach class flight from Venice to Paris in the late evening—well after nine o'clock. And yes a fine French meal with wine was part of the deal. Wouldn't it be more efficient to do away with late meals and charge for the wine?

If you get a sandwich in London—even at the smallest and most undistinguished sandwich shops—it always comes with a little salad. Often there is no little salad as part of the sandwich order in the United States—unless of course you pay for it. My experiences are not unique. Just ask any frequent traveler abroad. I know many people who will do anything to avoid flying on an American carrier when they go abroad. There is general agreement that the service on American carriers is near the bottom of the major international carriers. But American carriers usually are cheaper.

Now let's shift our attention to the United States. Ever notice how all the transaction costs of an exchange are being shifted to the consumer. You can start with the airlines. You book on line, print your own ticket, and check your own bags. When then Northwest made the switch from people to machines, I think the figure I was quoted was that each machine saved the airline \$47,000. The movement then went to grocery and retail stores. You either used the self-check outs or stand in long lines to deal with a live person. In grocery stores there is evidence that these self-check outs do not work very well. There is lots of room for honest error and dishonest theft. Nonetheless, my favorite check-out person at Giant—a large grocery store in Easton Maryland—told me that even with the theft and honest error, these self-check-outs were still cheaper than real people serving as check out clerks. Management will even accept theft in order to save money.

What most of these examples illustrate is classical economics in action. Always substitute a cheaper factor of production for a more expensive one. In fact the economically literate are told to continue to substitute a cheaper factor of production for a more expensive one until the marginal productivity of each is equal. Technological improvements in machinery have enabled the retail trade and a big chunk of the service industry to substitute these devices for labor and get the consumer to absorb the transaction costs in the bargain. I am sure we all have examples where people have been cut to increase profits. The result has been a decrease in service and/or a shift so that what once was service to the customer becomes self-service. All this leads me to ask as a consumer, "What has all this efficiency stuff gotten me?"

Of course philosophers have weird thoughts and the direction I am heading would indicate to those trained in economics that I simply do not understand the free market. I will discuss the obvious objections to my analysis soon enough. However, in my reading and television watching, I discovered other people, including some pretty distinguished ones, asking the same question even if they did not frame it the same way that I did.

What Some Others Are Saying

I thought the assassination of John F Kennedy would be the worst thing that happened in my lifetime. Then came the terrorist attack of September 11, 2001. Many have pointed to this situation and said that if people had done their jobs or communicated better, the attack might have been avoided. One bit of second guessing that is relevant to this Chapter concerns a claim made by John Farmer in *The Ground Truth: The Untold Story of America Under Attack on 9/11*.¹⁰ Farmer claimed that massive budget cuts to North American Aerospace Defense Command (NORAD) reduced alert sites from about two dozen to seven. That limited their ability to respond to 9/11 attacks.

Suppose that Farmer is right about this and the reduced alert sites were one of the factors in the disastrous attack. My critics will point out that this example does not undercut efficiency. It simply shows that what people thought was efficient wasn't. Fair enough but my concession here allows me to make another point. The first problem with the worship of efficiency is that there is a natural tendency to focus on short term efficiency. Most economists I am familiar with do not discuss the timeline on efficiency. They tend to look at any given transaction and ask is this transaction the most efficient of current available alternatives? But I submit that that is the wrong question. At a minimum we need to contextualize efficiency and ask what is most efficient in this context. With national defense we need to ask at a minimum what is most efficient in the long run.

¹⁰ Farmer, John. (2009). *The Ground Truth: The Untold Story of America Under Attack on 9/11*. New York: Riverhead Books.

This point was driven home to me by an interview on April 8, 2011 on the Bill Mahr show that Mahr had with Capt. Chesley B. “Sully” Sullenberger who landed his crippled US Airways jet on the Hudson River.¹¹ Captain Sullenberger referenced the fatal crash in Buffalo New York of commuter flight Colgan Air 3407 that killed all 50 aboard. The cause of the accident was attributed to pilot error. Sullenberger explained the circumstances around this “pilot error”—circumstances created by cost cutting (increased efficiency) by the airline industry in general and the commuter airline industry in particular. The pay for captains and first officers in the commuter airline industry is terrible. The first officer of the ill-fated flight was paid so little that she was forced to live with her parents. One her way to her Colgan Air assignment she could not afford to sleep in a hotel and instead slept in airport lounges for two nights before the crash. The Captain of the ill fated flight had never trained on the simulator for the condition he experienced. As for the airline industry as a whole, Sully pointed out that the “cost” of low airfares was low salary for pilots and the dissolving of pensions so that the best people were avoiding the industry. Sully admitted that there had been a back log of pilots who were trained before 9/11 but that the day was fast approaching when there would be a pilot shortage. In the meantime Sully admitted that he could not recommend becoming a pilot to any young person out there. As a father of a son in the industry, I concur.

The defender of efficiency will again argue that long run efficiency was sacrificed for short term efficiency. But as before where is the discussion in the economics literature about short vs. long run efficiency? The typical comment by economists is to quote John Maynard Keynes and say that in the long run we are all dead. But the point to notice here is that the emphasis on short-run efficiency is threatening an entire industry. And note that people in the airline industry are NOT treating this as a short term issue. They are arguing that absent government mandates, this is the future of the airline industry. But if that is so we are now approaching the point I want to make. An emphasis on efficiency as the airline industry and much of the public define it is not sustainable. Eventually the industry will not be able to find pilots to fly the aircraft.

In 2011 I finally got around to reading Tom Friedman’s *The World is Flat*. Friedman recognizes that we occupy different roles with respect to the economy. As consumers, we like low prices always or the philosophy of Wal-Mart. But as employees or citizens we do not. Why? Because Wal-Mart pays much lower wages and provides less in the way of benefits than their competitors—Costco for example. The unavailability of health care or its un-affordability for Wal-Mart workers means that a large number of Wal-Mart employees end up on Medicaid with the taxpayers paying the bill. The tax-payer is subsidizing Wal-Mart’s policy of “Low Prices Always” and of course contributing to Wal-Mart’s profit. As Friedman puts it,

“Yes, the consumer in me wants Wal-Mart prices, with all the fat gone. But the employee in me wants a little fat left on the bone, the way Costco does it, so they can offer health care to almost all its employees, rather than just less than half of them.”¹²

¹¹ *Real Time With Bill Maher*: April 8, 2011.

¹² Friedman, Thomas L. (2006). *The World is Flat, Updated and Expanded*. New York: Farrar, Straus and Giroux, 257.

Even some economists seem to think that efficiency (or more accurately put- growth through efficiency) can be overemphasized. A Stanford economist and another Nobel Prize in Economics winner¹³ (2001) Michael Spence put it this way, “I think there’s been an overemphasis on growth... Research establishes pretty clearly that typical notions of happiness-that more is better-really don’t correspond to the way people think and feel.”¹⁴

In the process of writing this article, I discovered someone who had the same frustrations as I did. Writing in the Sunday *New York Times* October 30, 2011, Craig Lambert asked, “Why are lawyers who make \$300,000 a year scanning their own groceries?”¹⁵ His answer which differs from mine is that machines are taking over. The result he points out is that although we refer to the United States as a service economy, the service part is disappearing. We are getting less service and doing more ourselves-self-service. Lambert refers the work that we take on ourselves-work that used to be done by others- as “shadow work.” This shadow work is driving up the unemployment rate. His long list of examples is similar to my own. Lambert cites pumping your own gas, self-service kiosks for check in at airports, and taking on the tasks that travel agents used to perform. Lambert also points out that you can no longer find people in department stores to help you find things and that secretaries and other support staff are a thing of the past. We have taken on this shadow work as part of our duties. All of this strikes me as on target. However, I believe that technological invention that allows shadow work is an enabler in the drive for efficiency. The real culprit in this story is the homage that is paid to efficiency.

The Issue or Issues

We are culturally attuned to treat efficiency as if it had intrinsic value. But efficiency is an instrumental value and a *prima facie* one at that. If I want to save on energy costs, I should be more efficient in my use of electricity. Efficiency in using electricity enables me to achieve my goal of saving on energy costs. But suppose I value personal contact when I engage in a market transaction. In a case like that I may be willing to incur more cost for the service just because I prefer dealing with a person rather than with a machine.

Some of the friction and inefficiencies are the result of culture. As Thomas Friedman says, “Some of these inefficiencies are institutions, habits, cultures, and traditions that people cherish precisely because they reflect non market values like social cohesion, religious faith, and national pride.”¹⁶

¹³ Although Spence was not honored for work related to the topic under discussion here. He shared the award with others for work on the economics of asymmetric information.

¹⁴ *Newsweek* June 18, 20, 2011.

¹⁵ Lambert, Craig. (2011). “Our Unpaid, Extra Shadow Work,” *The New York Times*, October 30, “Sunday Review”, 12.

¹⁶ Friedman, op.cit., 237.

This quotation reflects my sentiments as well. For me I like personal contact in most of my transactions. When I make a call, I want to be connected to a live person and I resent the disembodied voice that first wants to know if I want to “converse” in English and then takes up valuable time giving me a menu of options only one of which-if that many-is the one I want. So one important issue is this: sometimes consumers want to choose inefficiency because they value something else more.

What I really want to do is speak to a live person. I realize that this preference may simply be a function of age. After all teenagers enjoy texting, rather than interacting in person. Perhaps we do not need personal interaction, but if we do, that is one job that cannot be outsourced as Thomas Friedman pointed out.¹⁷

It may seem as if my attitude on the value of personal interaction would have much in common with those who oppose commodification. To some extent that is right. But not exactly. In dealing with people in economic transactions who are paid for serving me, the transaction is an economic one. It is just that I want the transaction mediated by a person rather than a non person. I would argue that the value of personal interaction requires me to give up some of the product or service because it is more costly to have personal interaction. That is somewhat different than saying that personal interaction should never be a commodity. So my first issue with efficiency is that I am willing to give up some economic gain in order to incur a transaction cost that I value. For me the prominent example is that I am willing to incur an additional transaction cost in order to be served by a person. In that respect I am like those citizens in some places who would rather have the higher expenses associated with small town businesses than a new shopping mall anchored by Wal-Mart outside of town.

However, my main concern with the focus on efficiency is that it is ultimately self-defeating. Many of the examples I have mentioned involve the substitution of machinery for people or the imposition of transaction costs on customers. So self-checkouts replace grocery store clerks decreasing employment. So does the elimination of meals on aircrafts and longer lines at hotels etc. As we continue to find ways to eliminate people, there will be fewer and fewer people to buy the goods and services produced which in turn will lead to the further elimination of jobs (people). Simply put the focus on efficiency is reducing employment. The United States is no longer creating enough jobs and what is true in the United States is true in many other parts of the world as well.

I am not the only person concerned with this issue. My concerns here are an example of what is often called “The Paradox of Thrift.” John Maynard Keynes provided the rationale for the paradox as follows: “Every such attempt to save money by reducing consumption will so affect incomes that the attempt necessarily defeats itself.”¹⁸ The paradox only exists when certain conditions in the economy obtain, so no one should think that Keynes is arguing that we should always be consuming. Indeed in periods of high inflation, people should consume less. I also realize that the concept has come under scrutiny and is widely criticized by right wing economists. However, I find their objections to the concept so long as the concept

¹⁷ Ibid., 306.

¹⁸ Keynes, John Maynard. (1936). *The General Theory of Employment, Interest, and Money*. New York: Harcourt, Brace and World Inc., 84.

is properly limited to be unconvincing. When cutting costs is applied to wages even when there is no business reason to do so, then something like the paradox takes shape. In 2010 Motts an apple juice producer and a subsidiary of the Dr Pepper Snapple Group tried to cut wages at a unionized apple juice plant in Western New York. Both Motts and the parent company were highly profitable so there was no business reason to cut wages except for the fact that the high unemployment rate in that part of the country meant that Motts and Dr Pepper Snapple could get away with it. Writing in *Newsweek*, Daniel Gross put it this way.

Lowballing is most dangerous when it comes to wages. ... If you lowball your own workers, they'll spend less, or shift to cheaper goods, or start lowballing their service providers. In 1914 Henry Ford instituted the \$5 a day for employees at his booming auto plants. ... because he believed it was good for his business. Ford reasoned that paying his assembly line workers more would allow them to buy cars.¹⁹

I think Ford had a point. In times like this, the search for efficiency can be a drag on employment.

My last concern with efficiency has to do with the distribution effects of the gains from efficiency. When a hotel cuts the number of check-in persons or when an airline substitutes self check in machines for people, who gains from the savings? In theory the gains could go to any of the stakeholders, cheaper products for the consumers, increased dividends for stockholders, increased salaries for executives, or even theoretically increased salaries for the remaining workers. One needs to study the particulars of each industry to make that determination. Certainly the flying public has benefited from lower prices in the airline industry. However, the gains in many instances have gone to the executives whose compensation has risen markedly vis-à-vis all the other stakeholders, especially the employees. Put another way the gains from increased efficiency are going disproportionately to the most wealthy. The benefits of efficiency have contributed to the rising inequality in the United States. Less efficiency would lead to a smaller Gross Domestic Product but less efficiency might lead to less inequality as well.

What's to Be Done

One thing to be done is for those who think as I do is to act as we talk. We should patronize those businesses that provide personal services even if it costs more to do so. Given a critical mass, the market, in some cases at least, will respond. There is at least one bank that advertises that you will always speak to a live person. Southwest Airlines has done a number of customer friendly things-among a number of smart business things it has done- that other airlines do not do and has gained market share as a result. But Southwest still has lots of those self-check ins and they encourage interaction on line rather than by phone. There is a limit as to how far markets will or even can accommodate people who want personal contact.

¹⁹Gross, Daniel. (2010). "Rock-Bottom Prices," *Newsweek*, September 20, 40, 47.

Another thing that can be done is to legally require certain kinds of personal service. If you travel in New Jersey you cannot pump your own gas. Self-service gasoline stations are illegal in New Jersey. New Jersey has made a public policy decision to opt for less efficiency and more jobs- at least at gasoline stations. How often and in what circumstances government entities should behave in this fashion is a matter for discussion. At this point in time the gasoline attendant requirement in New Jersey is an anomaly. But is there something here that should be emulated?

And if coercion sounds draconian, how about tax breaks or other incentives to encourage businesses in the service industry to hire employees? The Obama administration had recommended tax breaks for employers who hire additional people. In a deflationary world where technology and outsourcing increase unemployment, encouraging job growth especially in the service industries might be just what is needed.

Objections and Replies

I am sure that many reading up to this point will think that I simply do not understand elementary economics. Those with training in economics will make the following arguments: After all, mandating job creation in one place will raise costs and therefore there will be more jobs lost than the mandate creates. If individuals pay more for personal service, they simply have a different utility function than most people, but they do economize. If there is not a critical mass for a product or service so that the market will not provide it, so be it. Besides that does not happen very often.

Let's discuss my idiosyncratic desire to have personal contact wherever possible in economic transactions. When I deliberately incur a higher cost in order to satisfy my desire for personal contact, traditional economists argue that I really am being efficient for me. Given my desires, incurring the cost of personal contact is efficient for me; since many people do not have that desire what is efficient for them is different. We just have different utility functions, but we both maximize (behave efficiently) along those utility functions. That makes everyone a utility maximizer in his or her own way-something that was assumed for a long time in classical economics.

But we know that people are not utility maximizers because they behave irrationally. I, however, want to make a different point and it is a moral point. We ought to want personal contact in our transactions because (1) dumping all the transaction costs on the consumer is not fair and (2) we ought to take into consideration whether our actions in the market place are job sustaining or job killing. Choosing to go to the self-serve checkout in the grocery store when one could use a human clerk is choosing the job killing option and is morally suspect. I know this is a strong claim, but it is no stronger than Peter Singer and others who claim that we ought to consider how animals were raised before we sit down to eat meat. Singer wanted to make the routine eating of meat into a moral issue. I want to make the routine choosing of self-service when one has another option into a moral issue.

Now let us look at attempts to maintain employment as New Jersey does with the gasoline pumping attendants. I know the objection. First jobs always disappear in a

dynamic capitalist system. Look at all the jobs that have been created in the high tech industries, industries whose products did not exist 20 or 30 years ago. I concede all that. I have one simple question: Is our economic system creating enough full time jobs to employ those that want them? The answer to that question seems to be, "No." And all the economic forecasts I hear is that unemployment in the United States will exceed the so-called desirable 5 or 6 % for many more years. I do understand that at the micro level, technological advance makes some jobs obsolete and that with the technological advance new jobs are created. However, at the macro level we are not creating enough jobs and that is not only true of the United States but true of many other countries as well. By the way in the great depression we created jobs as a matter of public policy. That is what the Works Progress Administration (WPA) was for and a lot of useful work got done.

The next objection is that if we force a company or industry like New Jersey filling stations to hire people they do not need, we are not allocating labor in the most efficient way. We may increase employment in the filling stations but that increase will be more than be offset by a decrease in employment elsewhere. By the way this is similar to the argument against the minimum wage. An increase in the minimum wage will help a few people but decrease aggregate employment. Only problem with this argument is that it is at best controversial. Adding a small amount to a product's cost because of a slight increase in labor is unlikely to affect demand for that product. If you want to get technical whether an increase in cost will affect demand depends in part on the elasticity of demand. Elasticity of demand is a measure of how sensitive a product or service is to an increase in price. Most products produced by minimum wage workers have low elasticity of demand and therefore there is little response in demand to a small increase in price. Small gradual increases in the minimum wage will not put McDonald's out of business. Requiring human beings to pump gas will not raise the unemployment rate in New Jersey.

As we consider knocking efficiency off its pedestal, we need to look at the distribution effects of less efficiency. By being less efficient, we are making some worse off. So let us look at where the major job losses are. Most of the losses that have been discussed in this paper are in predominantly low skilled jobs or medium skilled jobs that have been or can be replaced by less costly machines. Think of the clerks at Wal-Mart. Suppose there were a law that required that for every self-check out there must be two clerks. In other words the number of clerks in any Wal-Mart would out number the self-check out machines 2-1. That would increase Wal-Mart's expenses. Either they would have to increase prices or reduce profits. To the extent that they reduce profits, the investing class would take the hit. And what is wrong with that? If Wal-Mart increases prices then customers will pay more. However, the price increases to customers will be very small, while the payoff to those who were underemployed or who are not employed will be huge. It is a public policy trade-off that I am willing to make. In general given the large amount of inequality in the United States I am willing to penalize the most wealthy to assist the least wealthy or I am willing to penalize the wealthy in order to bring the unemployment rate down. Willingness to trade efficiency for equity is hardly a new idea. See for example

Arthur Okun's *Equality and Efficiency: The Big Tradeoff*.²⁰ Economists have recognized that trading efficiency for equality is a public policy decision and that from a public policy perspective a gain in equality at the expense of efficiency is sometimes worth it on political or moral grounds. I would argue that at this point in American history, some tradeoff in favor of more equality certainly is worth it.

If unemployment keeps rising and if the middle class continues to shrink, what is the impact on the rich? There has to be people to buy the goods and services that our corporations provide. Note that the poor and middle class spend almost all their incomes. They do not or cannot save much. Thus an extra dollar for the poor or middle class helps keeps the economic engine running. We do not lack the funds for increased investment. There are trillions of dollars on the sidelines waiting to be invested. Bank deposits have grown so large that some banks are charging some customers some of the cost of Federal Deposit Insurance. Not only are interest rates impossibly low, but now banks are thinking of, and some are, charging you for the privilege of saving. This is unprecedented.

Also high unemployment and large and growing inequality threaten social stability. Occupy Wall Street may just be the first act if things do not improve. A second act is likely to be more unsettling and violent than the first act. We can look abroad to the Mid-East and Europe if you want to see what happens when a society cannot provide enough jobs for the young, for example, Egypt, or where public policy slashes salaries and benefits while the costs of goods and services goes up and unemployment increases as a result, as for example in Greece.

And if you find the coercive policy I am considering too radical, consider tax incentives and other options. Richard Thaler and Cass Sunstein have written an important book, *Nudge: Improving Decisions About Health, Wealth, and Happiness*,²¹ which encourages policy makers to present options in the way that would most likely lead consumers to make the right choices from a policy perspective. As they point out, the arrangement of food in a cafeteria influences what children will choose to eat and whether you are asked to opt-in or opt-out of a pay deduction in order to save for retirement influences whether and how much individuals will put away for their retirement. To the extent that policy makers can structure choices so that people will choose the options that result in greater employment, we should do so. Influenced choice is always better than coerced choice.

Conclusion

In this essay I am urging that we think outside the box. We live in a land of abundance rather than scarcity. We have lots of goods and services for sale and we could easily produce more. If the demand were present there is plenty of money on the

²⁰ Okun, Arthur M. (1975). *Equality and Efficiency: The Big Tradeoff*. Washington, DC: The Brookings Institution.

²¹ Thaler, Richard H. and Cass R. Sunstein. (2008). *Nudge: Improving Decisions About Health, Wealth, and Happiness*. New Haven: Yale University Press.

sidelines ready to invest. However, our economy has focused on efficiency through cost cutting and the elimination of labor. Eliminating labor has allowed some industries to increase the workload of customers. There is the cost of the product and the transaction cost of checking out and bagging your own purchases. We need to reduce unemployment and inequality. As individuals and as a society we need to think of cost, not only in terms of the price of the product or service purchased, but also the cost of transferring transaction costs to the customer and the cost of greater inequality to social stability and economic growth. Let's take a break from "Low Prices, Always."

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