The Economics of Pleasure and Pain

Bryan Caplan
Dep’t of Economics and Mercatus Center
George Mason University
bcaplan@gmu.edu
Not By Bread Alone

- Do people always choose the highest-paid job they can get?
  - Of course not. “Man does not live by bread alone.”

- Are there any jobs so awful that no one will do them?
  - Again, no. With enough money, you can find some human being willing to do the job.
    - *Dirty Jobs*

- This is all easy to analyze with supply-and-demand.
- Suppose a job is unusually fun. What shifts – and how?
- Suppose a job is unusually yucky. What shifts – and how?
Fun Jobs Pay Less; Yucky Jobs Pay More

• The pattern:
  • Fun jobs have high supply, hence low pay.
  • Yucky jobs have low supply, hence high pay.

• Economists call these pay differences “compensating differentials” (because they *compensate* for job and misery). Also: “equalizing differences.”

• What about all the low-paid yucky jobs? Key question: What are the workers’ *other* job options?
  • Econ profs vs. 7-11 workers

• Best scenario: You love what most people hate!
These Truisms Applied

• Obvious? Maybe. But the applications make many cringe.
  • Health insurance
  • Safety
  • Job security
  • Mean bosses

• Saying “You can’t put a price on health/safety/security/dignity” sounds good, but we do it all the time!
Your Problems Are My Problem

• So will a greedy employer care about how his workers feel? Yes!
• Why? Do greedy employers like paying higher wages? No!
• Key question: Is it cheaper to make workers happy, or pay them money to accept unhappiness?
  • Depends on the numbers
• Marginal thinking!!!
  • You can’t eliminate all yuckiness, but it may still be worth paying to mitigate it.
What to Think About Sweatshops

• Lots of workers in poor countries endure poor working conditions.
• Why don’t their bosses give them better conditions in exchange for lower pay?
• Probably because their pay is already so low.
• Why is it so low? Probably low productivity.
• Who here invests in the Third World?
Fun Regulation

• What happens if the government passes laws to improve working conditions?
• Better working conditions cost employers money, so the regulations *reduce* the demand for labor.
• Better working conditions make workers feel better, so the regulations *increase* the supply of labor.
• Result: Regulation improves working conditions *by reducing pay!*
• More job security, health insurance, safety, niceness → less $$$.
But Is It a Good Deal?

• Better conditions, lower pay. Is it a good deal on balance?

• Standard economists’ question: Was it legal for employers to improve working conditions before the regulation was passed?

• If so, why didn’t employers already give their workers better conditions and less pay?

• Standard economists’ answer: Because workers value the money more than the conditions.
  • Opera tickets example
  • Value of Medicaid

• Why not regulate conditions and pay? Disemployment!
The Case of Safety

• Worker safety regulations are extremely popular. But why?
• Strong doubts about the effect of regulation on safety. Do regulators really know the best ways to enhance safety across a complex economy?
• Classic critique: Instead of a phonebook of regulations, why not just fine employers for injuries, and let them figure out the rest?
  • “Employers will just pay the fines.” Really?
• Deeper critique: Why isn’t employee satisfaction incentive enough?
• The lazy case for regulation: “Imperfect information.” Why though would ignorance make workers too reckless rather than too cautious?
  • “People fear the unknown.”
• The honest case for regulation: Paternalism.
  • Workers don’t know their own best interests.
  • Or could regulators be living in a Bubble?
Social Desirability Bias

• If the case for regulation of employment relations is so shaky, why is it so popular?

• Well-established psychological result: When the truth sounds bad, people say (and often believe) falsehoods.
  • AKA “Social Desirability Bias”

• E.g. “You can’t put a price on safety” sounds good, but it’s false.

• Still, due to human weakness, saying pleasing falsehoods get politicians elected and laws passed.