



# The Economics of Pleasure and Pain

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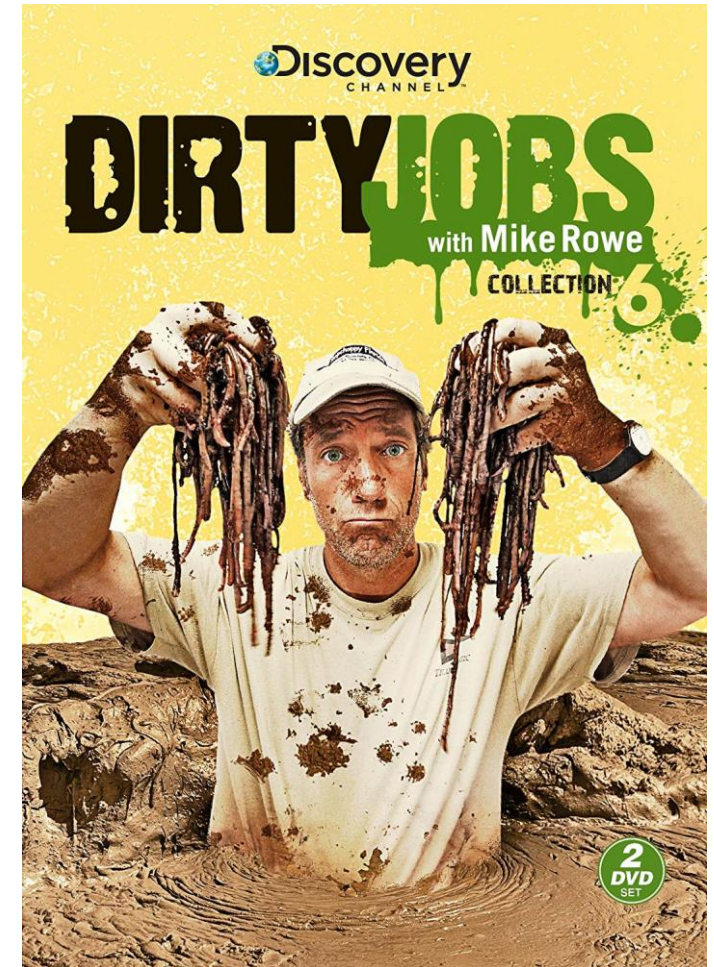
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# Not By Bread Alone

- 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.

