By: Shiladitya Banerjee Choudhury

On April 12th Christopher DeMuth spoke at the Economic Roundtable luncheon held at the Marietta Country Club. DeMuth, president of the American Enterprise Institute, a Washington D.C.-based think tank, spoke about a variety of problems facing the political economy of the United States and possible solutions to such problems.

According to DeMuth, today’s Americans are the richest and the freest people the world has ever known. We enjoy a great level of “personal health, mobility, safety, education, and amenity.” However, America is not free from problems. For example, we have to deal with problems such as “reducing pollution, relieving traffic congestion, providing better medical care to people of modest means, conserving more open space, [and] raising police salaries”.

These problems can hardly be labeled as resource problems. The reason is that America possesses the necessary resources to correct them. However, DeMuth believes that in order to successfully deal with these problems, we must first improve the nature of our political system.

DeMuth argued that America’s most serious problems are not economic problems, but rather, they are institutional and moral problems. For the most part, these problems are actually the result of America’s economic prosperity, and are the characteristics of a “super-affluent, mass-upper-middle-class society.”

DeMuth argued that two problems are at the center of a great political debate: the problems of “extension” and “employing” our wealth and freedom in the right manner.

The problem of extension “consists of extending the knowledge, habits, and institutions of productive freedom to those who live in circumstances of genuine poverty and hardship.”

DeMuth said that though several political activists of the Left have tried to conflate the poverty problem with issues of economic distribution among the non-poor, most people do not believe that the present problem of poverty could be improved by redistribution.
wider society.” Problems such as the breakdown of the family, the spread of drugs, and violence and obscenity in entertainment industry are examples of the problems of proper employment.

DeMuth also shared a few statistical facts on the size of the American government with his audience. In 1947 government outlays in the U.S. were 21 percent of its GDP. By 1999 government's share had grown to 31 percent of GDP. Today, the federal government owns nearly one-third of America’s landmass, manages 50 percent of personal retirement savings, and regulates many major industries.

However, DeMuth said that this is not the whole story. The government might have grown over the years but many programs such as “transportation, energy, financial regulation, and farm subsidies” have been reformed or repealed to a great extent. Today, American government might be big by historical standards, but it is small when compared to other Western economies.

DeMuth also discussed the widening gap between public policy and private practice in the U.S. As an example, he referred to the Social Security Program. Originally when the program was started in the 1930s, it was true that many Americans could not easily access the means for saving and investment. However, today most people can easily purchase stocks, bonds, and mutual funds. But Social Security still continues to take a large share of worker’s earnings and promises “miserable returns.”

DeMuth believes that the U.S. government’s attempts to become more efficient by increasing its size will create problems. These problems, according to DeMuth, have also assumed constitutional dimensions because the Executive Branch, which is left largely undefined, “is much more free to innovate than the Legislative Branch.”

As one example of this contention, DeMuth pointed to the Clean Air Act—a piece of legislation that was essentially written by the Environmental Protection Agency (EPA), the courts and environmental groups. The Congress could only add a “few statutory tweaks.” Today the EPA has gathered authority to write and enforce several laws, which might cost several billion dollars, simply on the grounds that some trivial health benefit might develop. According to DeMuth, the new ozone standards would cost nearly $100 billion per year if implemented, though it would provide “health benefits of about zero.”

In order to secure a limited and balanced government, DeMuth suggested demonopolization of government services. According to DeMuth, competition is an important principle “for harnessing our wealth and freedom.” He said that competition should be a central principle “of those who wish to maintain a healthy and productive culture.” He believes that the principle of competition must be used to reform all aspects of our political and legal system.

In conclusion, DeMuth reminded his audience that what “created our nation, held it together, and raised it up to its current preeminence was our fierce independence and love of liberty.”

UPCOMING SPEAKERS

June 20, 2000, William C. Dunkelberg, Professor of Economics, School of Business and Management, Temple University, former Dean, School of Business, Temple University, former member of President Reagan’s Transition Team.


December 2000, Susan Hickok (Ph.D. Harvard University), Vice President and Chief Economist,
Due to the current economic expansion, labor markets across the United States are experiencing substantial tightness as labor demand continues to be strong. As a consequence of tight labor markets, less skilled workers have begun moving into fields where they have little or no experience. This movement has proven very detrimental to workers in the field of construction. With this lack of experience also comes a lack of knowledge of the risks involved in working in this particular field. Such imperfect information causes workers to underestimate the hazards of the job, and therefore they are likely to accept a wage premium that is less than what they should be paid to properly compensate for the risks. Consequently, the socially optimal amount of job safety may not be provided through the labor markets.

From an economic point of view, the optimal amount of safety on the job requires a balancing of the costs and benefits of providing additional degrees of job safety. The costs of providing worker safety in the construction industry can be extremely high, ranging from simply providing hard hats and eye goggles to extensive training and restrictive work rules. Firms in this market are said to exhibit a rising marginal cost of job safety; meaning that the more "units" of safety the firm provides, the more costly it becomes for the firm to provide. The curve labeled MC1 in the Figure below represents the marginal cost of providing job safety.

However, even though the costs of providing safety are high, employers are motivated to supply some level of safety because of the marginal benefits involved in doing so. The benefits of providing safety include lower risks of death or injury, which enable firms to attract workers at lower wage rates and cuts down on the disruption caused by these accidents. More safety also allows the firm a greater return on their investment in human capital and it lowers workers’ compensation insurance rates.

Converse to the MC1 curve, the MB1 (marginal benefit from job safety) curve is diminishing, meaning that the extra benefit (cost savings) of job safety decreases with every increase in the amount of job safety (this is illustrated by the downward sloping MB curves on the graph).

Assuming that the employer wishes to maxi-

---

*The opinions of Annie Wolford do not necessarily represent the opinions of the ERT or the EMA Department at Marietta College.
to maximize their profits, it should continue to provide job safety up to the point where the marginal benefits of increased safety equal the marginal costs (McConnell, 419). The profit-maximizing amount of safety occurs at S1 in the graph above.

The outcome of S1, however, assumed that workers possess perfect information regarding the relevant safety risks involved with such jobs. However, if workers do not possess perfect information regarding work hazards, their illusion of job safety will cause the marginal benefits of each additional unit of job safety (MB2) to be less than what they truly are considering the actual amount of risk involved in the job (MB1). In other words, because they believe they are already safe the workers do not seek a wage premium to compensate for the added risk.

Thus, the employer's marginal benefit from reducing work hazards will be smaller than if workers had perfect information regarding job dangers. This misperception allows the firm to provide workers their perceived optimal amount of safety at S2 where the marginal costs of safety equal the perceived marginal benefits of safety (MC1 = MB2). However, since the workers are underestimating the risks involved in their profession, and the actual marginal benefits of safety are at MB1, the firm is under-providing job safety from the viewpoint of society (S2 rather than S1).

The Occupational Safety and Health Administration (OSHA) recently announced a proposal to concentrate more of their inspections on contractors whose hazards are not being controlled and less on those who meet their strict standards. This proposal is an attempt to raise the level of safety in the construction industry to what is optimal from OSHA's point of view (S1 in this case), since workers have, presumably, underestimated the need for it. OSHA felt that this increase in safety was much needed because the amount of deaths in this industry has risen by 25% in the past eight years (1,200+ deaths in 1999 alone) (Miller, A1).

However, due to the extreme costs of providing the proper amount of safety in this field, builders are afraid that the marginal costs of providing extra safety will exceed the marginal benefit of providing it, which would be to the firm's disadvantage. Yet, these builders also realize that if OSHA gets involved, workers will realize that there is inadequate safety in the field and some may consequently choose to leave this labor market.

This migration of workers will cause those workers who remain in the industry to demand a wage premium sufficient to compensate for the hazards they must endure. If firms actually improve safety levels then the wage premium would not have to be as high, which would mean that firms would not have to spend as much on added wages. Therefore, OSHA's involvement may provide firms the necessary motivation to abide and raise the safety standards.

Even though firms do have motivation to provide safety to their workers on their own, under conditions of incomplete information--and therefore inadequate compensating wage premiums--firms see the marginal benefit as less than the marginal cost. In this situation if OSHA had not intervened the firm would have had very little incentive to provide extra safety. OSHA's intervention is controversial because firms argue that providing these extra units of safety (from S2 to S1) would cost more to produce than they would generate in private benefits (McConnell, 424). However, OSHA feels that these expenditures are crucial when one considers the rapid increases in death and accidents over the past eight years, and argues that it would definitely be to these firms advantage in the long run to implement these higher standards of safety now.

Works Cited