



## Are Private Decisions Trustworthy?

BY DONALD J. BOUDREAUX

Writing in the February 28 edition of the *New York Times*, former Secretary of Labor Robert Reich defended Wal-Mart against its many detractors in this way: “After all, it’s not as if Wal-Mart’s founder, Sam Walton, and his successors created the world’s largest retailer by putting a gun to our heads and forcing us to shop there.”

Indubitably.

But Reich defends only Wal-Mart’s motives. He disdains its results and accepts the truth of the widely repeated claim that the Arkansas-based chain embodies the worst kind of economic exploitation. According to this claim, it pays its 1.2 million American workers an average of only \$9.68 an hour, fails to provide most of them with health insurance, keeps out unions, has a checkered history on labor law, and turns main streets into ghost towns by sucking business away from small retailers.

Reich goes on to argue that Wal-Mart’s undeniable success in voluntarily attracting workers and customers to its stores is *not* evidence of what citizens want. Indeed, it’s not evidence of what even Wal-Mart’s own workers and customers want. Here’s Reich’s reasoning:

The problem is, the choices we make in the market don’t fully reflect our values as workers or as citizens. I didn’t want our community bookstore in Cambridge, Mass., to close (as it did last fall) yet I still bought lots of books from Amazon.com. In addition, we may not see the larger bargain when our own job or community isn’t directly at stake. I don’t like what’s happening to airline workers, but I still try for the cheapest fare I can get.

The only way for the workers or citizens in us to trump the consumers in us is through laws and reg-

ulations that make our purchases a social choice as well as a personal one. A requirement that companies with more than 50 employees offer their workers affordable health insurance, for example, might increase slightly the price of their goods and services. My inner consumer won’t like that very much, but the worker in me thinks it a fair price to pay. Same with an increase in the minimum wage or a change in labor laws making it easier for employees to organize and negotiate better terms.



While Reich’s argument is weak, it isn’t absurd. At least he acknowledges that consumers rationally choose to shop at Wal-Mart. He tries to explain how voluntary and rational consumer choice might still result in unintended outcomes that are undesirable.

Those of us who respect the invisible hand—who understand that society is largely a rich complex of outcomes unintended by individual actors—cannot dismiss out of hand an argument such as Reich’s. Unintended outcomes need not always be desirable. If property rights are ill-defined or poorly enforced, then the same profit-seeking, bargain-seeking behaviors of individuals that otherwise lead to economic prosperity can lead to economic stagnation or worse.

Nevertheless, Reich’s argument fails. Its most glaring flaw concerns his treatment of workers. Even the lowest paid Wal-Mart employee—say, a minimum-wage worker without any employer-provided health insurance or other fringe benefits—is better off because of Wal-Mart. We know this because he is working there. Destroying Wal-Mart would leave him with his next-best alterna-

*Donald Boudreaux (dboudrea@gmu.edu) is chairman of the economics department at George Mason University and a former president of FEE.*

tive, which he voluntarily rejected in order to work at Wal-Mart.

Many people dismiss this straightforward observation, arguing that Wal-Mart succeeded largely by destroying higher-paying jobs in smaller retail stores. But this argument is implausible. Almost all of Wal-Mart's retail workers are low-skilled. The wages they would earn were they employed instead by mom-'n'-pops—even mom-'n'-pops shielded from competition like Wal-Mart—would also be low. Wages generally reflect each worker's productivity, how much he adds to the employer's bottom line. Mom-'n'-pop stores are no more willing or able than Wal-Mart to pay a worker more than he contributes. So it's almost certainly the case that without Wal-Mart, the bulk of its workers would be worse off.

### Consumers Benefit

Isn't it obvious that Wal-Mart benefits consumers? As Reich himself points out, no one is forced to shop at Wal-Mart. People shop there because it offers attractive deals.

But Reich argues that an individual consumer's choice might not reflect his genuine wishes. Suppose, for example, that every consumer truly prefers to keep Main Street unchanged and would be willing to pay higher retail prices if that were necessary to assure this outcome. The problem arises because each consumer reasons, "My shopping at Wal-Mart—and not at Mom-'n'-Pops—will not *by itself* have much of an effect. So I'll take advantage of Wal-Mart's low prices."

This consumer is right. Trouble is, *all* consumers reason the same way. So each tries to free-ride off what he hopes will be the choices of others to keep patronizing higher-priced Main Street retailers. The result is that Wal-Mart's competitors lose too many customers to remain in business. They shut their doors forever even though each consumer would sincerely have been willing to pay higher prices to keep Main Street unchanged.

Again, this scenario is possible. But contrary to Reich's claim, its possibility is no recommendation for government regulation. To see why, note how easily the argument can be reversed.

Suppose that today Wal-Mart is the only retailer in town, situated on its standard large plot of land a few miles from downtown. Tomorrow, smaller rivals open up on Main Street. Further suppose that all consumers truly want the Wal-Mart to remain open—perhaps they worry about where Wal-Mart's employees will work if the store closes down. But although each consumer truly prefers that Wal-Mart survive, each also chooses to patronize the more conveniently located downtown retailers. That is, each consumer tries to free-ride on what he hopes will be other consumers' continued shopping at Wal-Mart. But with each consumer acting this way—with all of them opting to enjoy the greater personal convenience of patronizing the close-in Main Street retailers rather than suffering the inconvenience of driving out to the Wal-Mart—the Main Street retailers prosper and the beloved Wal-Mart shuts down.

### Undesirable Outcomes

Spinning such tales about how voluntary choices *might* produce undesirable outcomes is simply too easy. It represents the triumph of puerile cleverness over wisdom. Almost *any* outcome of voluntary choices can be doused with suspicion if such tales are taken seriously.

Wisdom lies in recognizing that our world is no Shangri-la in which all dreams become realities, all desires are satisfied, and all doubts are extinguished. The best we can do is to trust that each person who makes choices with his own property generally believes that they are best for him. Guided on one hand by market prices and on the other by the obligation to avoid physically harming other people and their property, these individual choices will indeed result in unintended consequences—consequences that experience shows again and again not only to be beneficial in their own right, but far better than the consequences produced by political decision-making in which virtually all connection between authority and responsibility is broken.

Empowering government to override private, property-rights-based decisions for no reason other than the mere possibility that these decisions might not result in the most-desired outcomes is a preposterous irony. 