



In Praise of the Price System

By Richard W. Rahn

REWARDING EFFICIENCY IS MORE EFFECTIVE THAN PUNISHING
INEFFICIENCY

Kinder and gentler governments use market-based price incentives and less coercion. But all too many government officials forget about the superiority of the price system, and resort to the threat of or actual violence to get the people to do what they want. Business people use the price system to attract customers with lower prices and good employees by offering higher wages (the price of work) rather than coercion.

But then you have the occasional business (United Airlines, for example) that forgets that prices tend to work better than violence, and acts like coercive government. Just think of the amount of money and grief United would have saved itself by offering a price sufficiently high to get one passenger to give up his or her seat rather than dragging a random customer out of his seat.

A major highway bridge burned down in Atlanta a couple of weeks ago, causing enormous disruption. The economic cost may run into hundreds of millions when counting all the wasted hours of people waiting in traffic and loss of business to thousands of firms. Wisely, the government offered highway contractors big bonuses for completing the rebuilding in a manner of weeks, rather than months or years. Despite the big incentive payments, it is a safe bet that the total economic loss

would be less by offering even bigger bonuses for even quicker completion times. The time to complete a construction project is largely dependent on the number of workers and equipment that is dedicated to the project (and yes, there are some physical time limitations, such as hours needed to set concrete).

Back in 1994, there was a big earthquake in Los Angeles, which collapsed several highway overpasses, including two sections of the Santa Monica Freeway (the world's busiest at the time). The highway contractors were offered big bonuses for each day they could shorten the construction time for the rebuilding — and the incentive did work — but could probably have worked even better if the bonuses had been much larger. The daily bonus was estimated to be about one-fifth of the daily economic cost of the disruption caused by the freeway being closed. If the government officials doubled or tripled the daily bonus to get the work done even faster, it would have been a win, win, win — for the contractor, for the businesses that were disrupted, and for the poor commuters — in that the total economic loss would have been lower.

Prices allocate scarce resources and motivate future production. It is a basic concept that seems to elude many who think like socialists. One of the major reasons the Soviet Union collapsed was the massive misallocation of resources because of a nonfunctional price system. A major reason Obamacare is collapsing is because it relies too much on coercion and bureaucrat pricing (as contrasted with market pricing).

The U.S. military used to rely on the draft for its manpower needs, but four decades ago, the all-volunteer army was created, which relied on both market wages and patriotism to attract people. The result is a far better military, composed of people who want to be in the armed forces, rather than many malcontents — and far less social and political discord.

Better understanding of the price system by policymakers, members of the media and the public at large would do much to mitigate contentious problems, and open minds to nonconventional solutions. Various types of auction

systems could be developed to deal with the immigration and work permit issues. For instance, allowing employers to bid for work permits for foreign technical workers would put American workers at a price advantage, and would also allow companies to obtain workers with certain types of specialties in short supply. An innovative market-based system for temporary seasonal agricultural workers has already been designed (the Red Card Solution) by immigration expert Helen Kriebel, which has obtained widespread endorsement by many political leaders on both sides of the aisle, including Newt Gingrich.

Private contracting coupled with market prices could solve problems at all levels of government. Most Departments of Motor Vehicles are a joke, with people waiting around for hours (a huge waste of human capital) while slow-moving government bureaucrats operate with systems from a bygone era. The government could license private contractors to provide the DMV services, subject to strict quality and law enforcement standards. The private firms would then compete with each other on the basis of price, convenience and quality of service — much of which could be done over the internet.

The next time you are stuck in traffic because of some government road repair project that seems to go on forever, and where you expect a quicker completion if the contractor were given a bonus or a penalty for delay, put the time to good use. Think about all those things that government could do better and cheaper if it used the proper price incentives rather than bureaucratic coercion. The money the government takes is only one form of tax; equally destructive to the taxpayer's financial well-being and happiness is the "time" tax that needless government paperwork, such as that required by the Internal Revenue Service and other government inefficiencies, imposes on the citizen.

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<http://www.washingtontimes.com/news/2017/apr/17/price-system-will-help-the-economy/>