Killing Labor with Kindness: The Road to Hell is Paved with Good Intentions

When Martin Weitzman wrote *The Share Economy* in 1984 America was just beginning to come out of a prolonged period of stagflation (Mankiw, 254), and the twin bogeymen of high inflation and high unemployment are never far from Weitzman's focus. In *The Share Economy,* Weitzman offers a reimbursement model that attempts to do away with both villains while at the same time, as if by happy coincidence, increasing output and profits for firm and, perhaps most importantly to Weitzman, improving the conditions of the average worker (e.g., Weitzman, 142-4). Sadly, miracles are few and far between; Weitzman's model fails to consider several key points that would, in practice, lead the share economy to hurt those Weitzman most wants to help.

One of the goals of Weitzman's share economy is to create full employment. Indeed, the remuneration system of the share economy creates an incentive to hire workers whenever the marginal revenue generated by the worker is greater than zero. It is worth noting, however, that this by no means guarantees full employment—at any given time, the limitations of the capital stock make decreasing marginal return of labor a reality. This is a small problem, however, compared to the ramifications of the share economy for wages.

If we consider a firm with an initial work force of n and a share rate s, then the initial wage w is

$w_n = \frac{s}{n}\sum_{i=1}^{n} MR_i$, and total wages are $W_n = s\sum_{i=1}^{n} MR_i$.

Hiring another brings total wages to $W_{n+1} = s\sum_{i=1}^{n+1} MR_i = W_n + sMR_{n+1}$, so

$MC_{n+1} = W_{n+1} - W_n = sMR_{n+1}$, and the firm hires a new employee for all MR > 0.

However, the marginal wage is

$w_{n+1} - w_n = \frac{s}{n+1}\sum_{i=1}^{n+1} MR_i - \frac{s}{n}\sum_{i=1}^{n} MR_i = s\left[\frac{MR_{n+1}}{n+1}\right] - \frac{w_n}{n+1}$, and the marginal wage is greater than zero only if the marginal revenue from a worker is greater than the average revenue from all the previously hired workers. So, in all cases in which the marginal revenue of hiring a worker is between zero and the average revenue of all other workers, the wage rate will drop in the share economy.

Weitzman acknowledges this possibility, but brushes it away with talk of "artificially privileged" workers and legally-enforced open-shop unions (ibid., 109). Soon, all memories of frictions between old and new workers are forgotten in the rosy haze of employers stumbling over themselves to make the workplace more pleasant (ibid., 121). Unfortunately, reality might not be so accommodating. In the share economy, the "artificially privileged" worker becomes every worker the firm employs. This creates a strong incentive for the labor force, far from welcoming a new member as a long-lost brother to join in Weitzman's favorite "legions of courageous, downtrodden, underprivileged people seeking work with dignity (ibid., 110)," to do their best to make the life of the new legionnaire miserable. More specifically, since every worker in the firm is hurt by a new worker's presence (and, for that matter, by an old worker's presence) if the worker doesn't contribute enough, every one of them will devote time and energy to finding unproductive workers and doing what he can to force them out. Here, Weitzman's beneficiaries run into the first of many unintended harms of his system: social strife.

This harm is exacerbated by the dependence on both union and firm that the share system engenders in workers. If their union determines how the share is distributed, workers are entirely at the mercy of (historically corrupt) officials who decide what sort of salary their members get at any given time. Since negotiations between labor and management would be about the size of the share, not about its distribution, workers would have nothing in their contracts to guarantee them any income at all, and employers would be powerless to help them. We can hope that an incentive to be corrupt in a legal fashion with large sums of money would be weaker than the inherent goodness of the courageous legion-leaders, but this hope is not a sufficient basis for an economic theory.

On the other hand, workers' fates are now tied directly to the fate of their companies. This means that when a firm is doing poorly their incomes, unlike the incomes of their counterparts in a standard wage model firm that is losing money but can still afford to meets its obligations, are in freefall. It is this guarantee of a solid income, not "artificial privilege," that makes wages attractive to workers. In fact, for a worker to make any attempt to consume and save optimally, he needs some certainty about his income. This certainty is simply unavailable in a pure share system.

Weitzman rushes in to tell us that we needn't worry about the share economy worker in a bust for his firm because the optimal course of action for a share economy firm is to increase production and decrease prices, which will, when done across the economy, stimulate aggregate demand (since Weitzman goes to pains to show that most consumption of a firm's product is not done by that firm's workers), and bring about a recovery (ibid., 44, 102-3). The problem, however, is that increasing production in the affected sector might not stimulate demand in the economy as a whole, and that the recovery might thus never materialize. Rather than keeping its workers afloat when it can and laying them off when it can't, Weitzman's firm takes the "nice" way out, starving them for as long as they'll take it.

"Taking it" quickly becomes the most important skill in Weitzman's economy: as long as you're producing any revenue at all, your job is safe, but if the firm is doing poorly for any reason, so are you. In fact, you are doing poorly whether or not the firm does poorly, since every shock to the system leads to wage cuts, whether it be increases in input costs (ibid., 113), decline in demand (ibid., 103), or a marginal increase in labor supply. What's more, the poor workers cannot even hope to negotiate a contract above market value, regardless of their share of the labor market—the share system will always bring their wages back down, contract terms be damned (ibid., 117). This, then, is Weitzman's great gift to labor, and society as a whole: production is kept up and prices are kept down in the share economy at the expense of workers, who must shoulder all shocks.

Aware of this problem, Weitzman attempts to hedge his bets by emphasizing the externalities of various wage structures, concluding that a share structure is a public good, to be encouraged with pervasive propaganda (!) and tax incentives. He maintains that such means are justified because in a contraction, the share firms will stimulate a recovery. However, the inherent free-rider problem with his model is even more pronounced in contractions, since tax incentives do little good for a firm that's already bleeding money! In fact, his incentives are so structured that firms are most likely to defect at the exact time when their defection is most harmful (ibid., 129-30).

Finally, a picture of Weitzman's share economy emerges: when the smoke clears and the mirrors are removed, we see workers whose lives are shaped by petty intra-labor strife, whose futures are always uncertain, whose empty pockets bear the full brunt of the economy's variable winds, and who have nothing to show for it besides the long-run equilibrium they had under a wage system and a form of social insurance wherein a very few marginally (un)employed workers benefit at a cost to very many (reliably employed) workers. As society continues along its unchanged very-long-run trajectory, the voices of these workers must surely rise up over the noise of the propaganda that surrounds them, up to the Weitzmans of the world: "Please, we'll work for you, we'll pay the taxes that fund your research, we'll adjust our specializations to humor your whims, just please, leave us alone!"

Works Cited

1) Mankiw, N. George. *Macroeconomics*. New York: Worth Publishers, 2003.

2) Weitzman, Martin L. *The Share Economy*. Cambridge: Harvard University Press, 1984.