



THE HIGH COST OF LOW PRICES

Saving our way to oblivion

CONTEMPORARY ECONOMIC theory says that costs must be minimized through competition. But our economy operates under the implicit and nonsensical assumption that all that matters to people are benefits to consumers and investors. The 44 percent annual employee turnover rate at Wal-Mart—the corporation that has turned neo-classical economic theory into reality—is a symptom of how such an economy fails to serve the full range of human needs.

The world's largest corporation got that way by out-competing any retailer that couldn't match its great cost-squeeze. At Wal-Mart, every cost is scrutinized. But the costs that managers identify as "unnecessary" are not only materials waste or excess turn-around time. They include basic working conditions, wages, and benefits for Wal-Mart's employees, as well as for the millions who work for its twenty-five thousand suppliers. These costs include important aspects of what had, during the twentieth century, been called American progress: wage laws, agreements about hours and conditions of work, and health and retirement plans.

In truth, nobody wants to experience the world that perfect economic competition would produce. Workers don't want labor-camp conditions; CEOs and stock-

holders don't want the compression of their own salaries and profits (which, after all, are a "cost" passed on to consumers). An economy that actually takes into consideration the reality of human beings is one that fosters the well-being of whole persons in healthy environments. That's not done solely through efficient markets.

Economists and policymakers tend to confuse means—more jobs and a bigger gross national product—with the true end, which is well-being. Despite the daily economic reports, gross national product is not the goal. Profit is not the goal. Individual and social well-being is the goal of an organized society, and the economy should serve that. This is achieved through intangibles: secure futures, mental and physical stimulation and challenge (including the enjoyment, for example, of wilderness, or art), and the chance to achieve these things in ways that foster self-respect and the respect of others. But we're scarcely aiming our economy toward creating this world.

How do we improve the economy's aim? Consider this: when people and institutions take the long-term view, their interests tend to converge. For example, a business that cares about the character of its workforce ten years from now will support education and seek to maintain a

healthy environment and stable community. This is a point of leverage.

Government, investors, and civil society can require that businesses identify their success in long-term ways, rather than by focusing on the next quarter's earnings. There are encouraging developments in this direction. State treasurers and pension funds located across the country, from California to New York, have started to use their enormous pools of capital to demand long-term outlooks. Swiss Re and other insurance companies, JPMorgan Chase and other banks—all are saying that globally damaging activities such as the production of climate-destroying greenhouse gases can increase risk and reduce profits. A recent report from Goldman Sachs sees risks for investors who ignore social and environmental impacts, and opportunities for businesses that take these issues into account.

When business interests broadly accept that the economy's purpose is the fullness of human well-being in the present and the future, then business legitimacy will depend on serving that goal, and not on "Always Low Prices." ☞

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