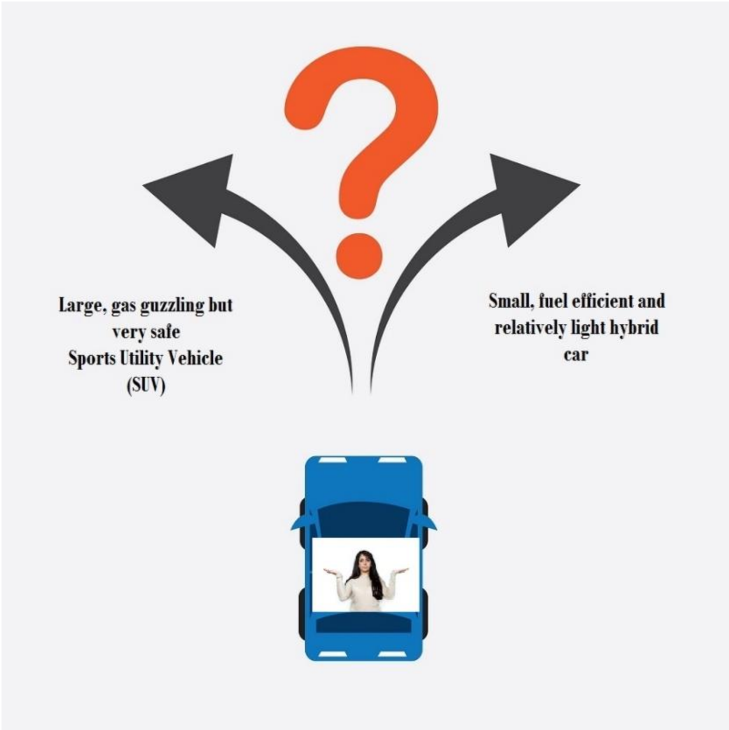
Sacrificing Lives for Profits
By Dwight R. Lee
Audio (8:40 minutes)



Introduction: This reading and podcast help individuals: 1) understand that everyone lives in a world of scarcity and, therefore, makes choices that involve tradeoffs; 2) recognize how choices made by individuals, businesses, and government officials involve tradeoffs; 3) understand the concept of marginal value and its subjective nature; 4) realize how scarcity relates to safety issues on the personal, business, and government levels; and 5) explore how safety policies often respond to seen consequences or effects, while they often set aside some of the unseen tradeoffs.

Key concepts: Scarcity, tradeoffs, marginal benefits, marginal costs, and subjective marginal value, and unseen tradeoffs

Questions for thought: Why do automakers sacrifice lives for profit? Why can there be conflict between value on life and profit?

Despite what people commonly say about how human life being priceless, they put a price on their lives every day with their actions. People take chances that shorten their life expectancies to do things that are fun, and for the convenience and savings of not taking every precaution possible. When people willingly accept risks to acquire things they value, they are putting a price on their lives—telling us with their actions that the marginal value of their lives is less than the often quite low value they realize from overeating, not exercising, driving too fast, and so on.

Unfortunately, when people take chances they sometimes have regrettable accidents. Nothing is more natural than feeling sorry for those who have suffered serious injury or death because they exposed themselves to risk. But our sympathy for them should not blind us to the fact that we would not be doing adults a favor by interfering with their ability to take risks that, given their preferences and circumstances, make sense to them. Yet such policies are condoned and encouraged every day by well-meaning people who (1) fail to recognize that, at the margin, human life is not priceless and (2) don't understand how prices and profits empower people to communicate effectively their desires to business firms. These are people who are quick to express moral outrage when they hear the charge that corporations sacrifice lives to increase their profits by making unsafe products.

People are accidentally injured and killed every day because products are not as safe as they could be. More than ever before, the prevailing legal environment encourages those harmed in these accidents to sue manufacturers of "unsafe" products to compensate for their pain and suffering.

An obvious inducement for these suits is that the payoff to plaintiffs and their lawyers can be high, occasionally outrageously high. For example, in 1999 a $4.9 billion judgment against General Motors was awarded to six people severely burned when their 1979 Malibu caught fire after being hit by a drunk driver going between 50 and 70 miles per hour.[1]

The charge that sways juries and offends public sensitivities, and helps explain the large awards, is that greedy corporations sacrifice human lives to increase their profits.

Is this charge true? Of course it is. But this isn’t a criticism of corporations; rather it is a reflection of the proper functioning of a market economy. Corporations routinely sacrifice the lives of some of their customers to increase profits, and we are all better off because they do. That’s right, we are lucky to live in an economy that allows corporations to increase profits by intentionally selling products less safe than could be produced. The desirability of sacrificing lives for profits may not be as comforting as milk, cookies, and a bedtime story, but it follows directly from a reality we cannot wish away.

The reality is scarcity. There are limits to the desirable things that can be produced. If we want more of one thing, we have to do with less of other things. Those expressing outrage that safety is sacrificed for profit ignore this obvious point. For example, traffic fatalities could be reduced if cars were built like Sherman tanks. But the extra safety would come at the sacrifice of gas mileage, comfort, speed, and parking convenience, not to mention all the things you couldn’t buy after paying the extraordinarily high price of a Tankmobile. Long before we increased automotive safety to that of a Tankmobile, the marginal value of the additional life expectancy would be far less than the marginal value of what would be given up. It simply makes no sense to reduce traffic deaths as much as possible by making automobiles as safe as possible.

Communicating with Profits

But how much safety is the right amount? The answer varies among individuals. Some people get so much enjoyment out of riding motorcycles, for example, that they do so even though the chances of surviving an accident are 17 times greater in a car. People typically purchase more safety as their incomes increase and when more people are dependent on them. When I was in graduate school, I drove a battered Volkswagen Bug with a door that wouldn’t close completely. I chose more education at the cost of less safety. Now that I have a family and more income, I am willing to pay for more safety, so I drive a Suburban—not quite a Sherman tank, but close.

How do people communicate their demand for safety to automobile manufacturers? Through the prices they are willing to pay for different types of cars and the profits generated by these prices. There would be no profit in making a car as safe as a Sherman tank because nobody would buy it. Car companies make more profit as they get closer to incorporating the inevitable tradeoffs in automobile designs to the liking of consumers. So when car manufacturers compromise on safety to increase profits, they are doing what we want them to do—responding to our preferences.

This is not to say that mistakes aren't made. Prices and profits don't allow consumers to communicate every aspect of their preferences for cars with surgical precision. But the advantage of profits in motivating auto safety is that when a car company doesn't give consumers what they want, profit opportunities increase for car companies that do. And although this market process doesn't work perfectly, it works better than any other process.

Unfortunately, with any reasonable level of product safety, people will be killed and injured in accidents. The cost and carnage of these accidents are easily seen, as is the fact that the damage would have been less if only more safety had been built into the product being used. Not as easily seen are the advantages millions of people realize from not having to pay for more safety than they want—advantages like more money to spend on education, medicine, clothing, and housing. And more education, better medicines, and improvements in the clothing and housing available are all associated with longer life expectancies. Those whose lives are cut short by accidents are obviously identifiable, while we will never know who avoided a premature death because of the prosperity generated by an economic system guided by market prices and profits. But there can be no doubt that the latter far outnumber the former.

Concluding Question: Now, use economic reasoning to explain why consumers improved fuel efficiency for increased safety when purchasing vehicles? How do prices and profits empower you and other auto consumers to communicate your preferences to automakers and other business owners?

Reference:

Lee, Dwight R. "Sacrificing Lives for Profits," The Freeman: Ideas on Liberty - November 2000. Retrieved from the World Wide Web on 20 November 2014 at http://www.fee.org/publications/the-freeman/article.asp?aid=2553.

[1] The actual settlement will be less, though still much higher than justified by how much people value the marginal safety involved in the case. As of March 2000 the plaintiffs have offered to settle for $400 million, but General Motors has refused so it can continue appealing the case.