Shopping in China and Russia

In class we emphasized the Pigouvian logic behind efficient and inefficient institutions (read: incentive structures). Pigouvian reasoning can help us to understand why communist economics failed in Russia, as well as why communist China is currently engaged in the widespread unleashing of market forces (economic liberalization). Under communism, the divergences between individuals’ Private Benefits and the Social Benefits they contribute may be dramatic; individuals impose harmful *spillover effects* on others, effects that the actors are unconcerned about since they do not bear (read: appropriate) their consequences. To illustrate, below we give a few anecdotes, courtesy of Jenny Woo, about her family’s adventures in China in 1989 and also in Russia (before the collapse of communism).

Jenny’s mother went into a shop in Beijing, China to buy some shoes. The clerk showed her a shoe that she liked. She tried on the right shoe and it fit perfectly. So she purchased these shoes. When she got home, she was very surprised to find that the box the clerk gave her contained two right shoes! Of course she took the box back to get the mistake rectified. The clerk was not at all surprised when Jenny’s mother told her what happened. “I know,” she said, “they are all that way. The factory sent us just right shoes!”

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**COMMENTARY:** Why didn’t the clerk immediately tell Jenny’s mother that she was buying two right shoes? The clerk could not care less. Her job was secure whether she provided good service or not. The evident Social Benefits from being courteous exceeded her Private Benefits.

Why did the factory send all right shoes to the shop in the first place (apparently sending all left shoes to another shoe shop)? The factory workers did not care if their factory made a profit or not because it was a government firm; their jobs also were secure, whether or not they did a careful job shipping their goods. The Social Benefits from careful service exceeded their Private Benefits as well.

On another occasion Jenny’s mother went into another shoe store to buy some boots. It was snowing in China. When she tried on the first boot, she was promptly pierced on the heel by a half inch nail! “Ouch,” she screamed, giving back the boot to the clerk. The clerk promptly put the boots back into their box and replaced them on the shelf, apparently for the next innocent customer to have a thrill. “I’m sorry,” she said rather indifferently, “do you want to try on another pair?” Jenny’s mother left the store in a hurry.

**COMMENTARY:** Why was the clerk so indifferent about the service she was providing? Why were the boots so shoddily made in the first place? In addition to our earlier observations, which again apply, notice that if prices are fixed artificially low and there is an excess demand for goods, there is no incentive to increase quality. The Private Benefits from increased craftsmanship are effectively zero, in spite of the evident Social Benefits.
And here are three stories from Russia. In Moscow, Jenny was surprised to see someone in the marketplace selling used (i.e., burnt out) light bulbs for 5 kopecks each. Why were people buying them? People would take the burnt out light bulbs to their workplaces. They replaced the good bulbs there with their worthless ones. They then took the good ones home to light their houses!

COMMENTARY: Workers did not care if their workplace lost money since their jobs were secure anyway. Bulbs were apparently in very short supply, rationed mainly to factories, only relatively few going to households. Theft might have been the only way to get these resources to flow to their highest valued use. It was a way to compete if you could not compete with your “dollar votes.” Apparently, theft in the workplace was very common in Russia, e.g., stealing paper because it was hard to buy, stealing construction material if you were employed in a construction trade. This is sometimes referred to as “spontaneous privatization.”

On another shopping outing in Russia, Jenny went to a department store. All the merchandise was behind the counter, so you had to get the assistance of a clerk. The man in front of Jenny was looking at some shirts. The first one was too small, so he asked to see another. The second also was not right, so he asked to see a third. The sales clerk, by this time, was completely irritated with the customer and literally threw the third shirt at him.

COMMENTARY: The clerk’s private cost of losing his temper with customers was nil; his job was secure, independent of how much he sold or his customers’ satisfaction. Alternatively expressed, his Private Benefit from being nice (or at least forbearing) was much less than the evident Social Benefits. Jenny thinks the clerk might even have been trying to scare away customers from his shop, so that he could enjoy more leisure.

The last story occurred at a remote refueling station in Siberia. Jenny saw some souvenirs in the airport gift shop that attracted her: little painted wooden dolls. Unfortunately the shop was closed just then, although Jenny’s airplane was the only one at the airport and perhaps the only one that would land there all day. Just as they announced that her airplane was ready for reboarding, the shop opened! Apparently this was indeed a case of opting for leisure over work, since it really did not matter to the shopkeepers whether they sold souvenirs or not. Why did they bother to open at all? Apparently so they could tell their supervisors that they were there.