Excessive Paperwork and Meetings: An Example of Externality with Chinese Characteristics

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Abstract

Externality refers to the economic cost or benefit that is not reflected in price. Actions with positive externality are usually in shortage, while those with negative externality are often excessive. With the aid of the externality theory, we can deepen our understanding of the problem of excessive paperwork and meetings and can find out some possible solutions. The author of this paper thinks that hidden negative externality exists in excessive paperwork and meetings, and that bargaining and restriction by social criteria and moral rules might be feasible solutions for this problem.

Keywords: Excessive Paperwork and Meetings, Externality

There is a Chinese idiom, *wen shan hui hai*, which means a mountain of paperwork and a sea of meetings. In the fifth edition of *Modern Chinese Dictionary*, it is interpreted as “excessive paperwork and meetings. Such an interpretation is somewhat simple and neutral, without any emotional inclination. As a matter of fact, when we face documents piled like mountains and attend time-consuming meetings filled up with empty talk, we often feel bored and unsatisfied. Excessive paperwork and meetings is regarded by many people as a serious disease disturbing the public sectors, especially the government departments, of our country, a bad work style hated by most people. Our leaders have stressed many times that this problem must be solved. In the Second Session of the Tenth National People’s Congress in March 2004, Premier Wen Jiabao figured out that, the problem of excessive paperwork and meetings should be eliminated through transforming government functions. In January 2009, Wang Yang, Secretary of the CPC Guangdong Provincial Committee, straightly criticized the phenomenon of excessive paperwork and meetings in the Third Session of the 14th Guangdong Provincial Committee of the CPC. Not a few scholars have issued papers on this problem, and suggestions and countermeasures are given from angles such as change of work style, adoption of OA technology, etc. The author of this paper argues that introducing the externality theory will help us better understand the origin and causes of this phenomenon and enlighten us to find some resolutions.

1. What’s Externality?

In economics, an externality (or transaction spillover) is a cost or benefit, not transmitted through prices, incurred by a party who did not agree to the action causing the cost or benefit. In other words, externality refers to such a phenomenon that an economic agent affects the well-being of a third party without assuming the corresponding cost or receiving the corresponding reward. In fact, the behavior of any economic agent will affect the well-being of a third party; however, in most cases such an influence is reflected through prices. For example, the action of a consumer buying a product will push its price up by increasing the demand, thus making it possible that other consumers need to buy this product at a higher price. On the contrast, the action of a producer producing and supplying a product will push its price down by increasing the supply, thus making it possible that other producers need to sell this product at a lower price. Such an influence is not real externality and it is sometimes called “monetary externality or pecuniary externality”, because the changes of price determined through the supply-demand interaction have reflected this very well. In short, an externality is a cost or benefit not reflected in prices.

According to their results, externalities can be divided into positive and negative ones. A negative externality occurs when an individual or firm making a decision does not have to pay the full cost of the decision. Many negative externalities (also called “external costs” or “external diseconomies”) are related to the environmental consequences of production and use. Examples of negative externalities include air pollution from burning fossil fuels causes damages to crops, buildings and public health; water pollution by industries that adds poisons to the water, which harm plants, animals, and humans; car owners' use of roads, which impose congestion costs and higher accident risks on all other users, and so on. A positive externality exists when an individual or firm making a decision does not receive the full benefit of the decision. Examples of positive externalities (beneficial externality, external benefit, external economy, or merit goods) include: an individual planting an attractive garden in front of his or her house may provide benefits to others living in the area, and even financial benefits in the form of increased property values for all property owners; a public organization that coordinates the control of an infectious diseases preventing others in society from getting sick; education creates a positive externality because more highly educated people are less likely to engage in violent crime, making everyone in the community better off, regardless of their level of education; and so forth.

Externalities lead to low efficiency of resource allocation. When a positive externality exists in an unregulated market, the marginal benefit curve (the demand curve) of the individual making the decision is less than the marginal benefit curve to society. With positive externalities, less is produced and consumed than the socially optimal level. When a negative externality exists in an unregulated market, producers don't take responsibility for external costs that exist--these are passed on to society. Thus producers have lower marginal costs than they would otherwise have and the supply curve is effectively shifted down (to the right) of the supply curve that society faces. Because the supply curve is increased, more of the product is bought than the efficient amount--that is, too much of the product is produced and sold.

2. The Externality of Excessive Paperwork and Meetings

"*Wen shan*" (excessive paperwork) and "*hui hai*" (excessive meetings) are two kinds of different phenomena. However, they are of the same nature seen from their social impact, that is to say, they both lead to negative externalities. For convenience of discussion, only the externality of excessive meetings is simply analyzed and some possible solutions brought forward in the following paragraphs.

As stated above, an externality is a benefit or cost not reflected through prices. Seen from actual circumstances, whether a meeting is called or not is determined by the convener or presider; and in an organization (business or government) it is decided by the major leaders. When they decide whether or not to call a meeting, they consider such factors as their time and agenda, in other words, they think of and calculate their own costs and benefits, while the time and other costs of other attendees are ignored. So, ignored costs exist in quite a proportion of meetings: a meeting should not have been called, or its scale is expanded arbitrarily and some irrelevant people are required to attend it. These all are the costs of such meetings that actually exist but are often neglected. Therefore, we can deduce that externality exists in excessive meetings, and it is a kind of negative externality.

More specifically, the costs arising from excessive meetings that might be ignored can be understood from the following several angles. First, the redundant or upsized meetings will bring direct costs such as time, money, etc. A meeting itself needs material resources, including the arrangement of meeting place, allocation of meeting space, preparation of documents. Besides, the costs of a large-scale meeting include traffic and accommodation expenses for the attendees. Actually, such costs are easy to calculate; however, they are either ignored or undervalued due to certain reasons. Second, seen from the angle of opportunity cost, the time, money and other resources spent on excessive meetings means a great opportunity cost. The scarcity of resources is a basic proposition in modern microeconomics. It means any resource is scarce in relation to the demand of human. The scarcity of resources is the logic precondition of opportunity cost, and the opportunity cost of an action is the possible benefit of another choice. The time, money and other resources spent on excessive meetings should be spent in other activities. For example, the working time of researchers should be spent in research activities. If they are required to attend too much irrelevant meetings, opportunities of great academic achievements might be wasted, leading to great opportunity costs. Finally, the wide spreading of excessive meetings is a representation of bureaucratism, cultivating bad habits and work styles of emphasizing the forms while not caring costs. This will affect the efficiency of the whole society and it is also a great hidden cost.

If we believe that excessive meetings cause great ignored or undervalued costs, causing negative externalities, why this problem has long been neglected by people? The reason may lies in that the negative externality of excessive meetings is hidden. Generally speaking, externality in economics refers to the cost of benefit imposed by the action of two economic agents on a third party. At first glance, there is no third party involved in a meeting. But on closer look we can find that a third party really exists. When you see the presider of a meeting is talking himself out while others are sleeping in the seats or doing irrelevant things, you can realize that such a meeting should have not been called. It is hard to define which meetings should be called and which people should attend the meetings. A simple indication is the degree of attendee participation.

3. Possible Solutions

If we admit that negative externalities exist in excessive meetings, it is necessary to discuss the solution. In economics, there are two classes of methods correcting externalities, that is, solutions by the private sector and solutions by the public sector. The former includes bargaining, combination of businesses and ethical restriction, while the latter includes market-based measures (i.e., corrective tax or subsidy) and government regulation. Except combination of businesses, the other methods are all possible solutions for the externality of excessive meetings.

3.1 Bargaining

The first method to correct the externality of excessive meetings is bargaining. According to the Coase Theorem, if trade in an externality is possible and there are no transaction costs, bargaining will lead to an efficient outcome regardless of the initial allocation of property rights. For instance, there are smokers and non-smokers in an open space in which smoking is legal. If the losses of the latter are greater than the former’s benefits from smoking, they can together give the former some money to ask them to give up smoking there. On the contrary, in a no-smoking compartment of a train, if the welfare losses of smokers arising from prohibition of smoking are greater than the benefits of non-smokers, they can give some compensation to the non-smokers in exchange for the rights of smoking.

As for meetings, no matter whether the convener has the right to call a meeting and ask some people to attend it or the attendees have the right to choose to attend a meeting or not, the quantities and scale of meetings can be determined through negotiation and bargaining, thus realize the efficiency of resource allocation. Suppose the convener has the right to call a meeting, some people (especially those who are the actual third party whose welfare would be damaged by attending the meeting) can organize themselves together and negoitate with the convener, and pay some fee negotiated to avoid attending the meeting. The amount of this fee should be no more than the potential losses that would be caused by the meeting. For an example, if the two hours spent by a person attending an irrevelant meeting could be used to earn an income of one hundred dollars, he can pay a sum not more than one hundred dollors in exchange for the right of not attending the meeting, and such an exchange can be agreed upon. Contrastly, if the attendees have the right to choose whether or not to attend the meeting, then the convener may need to pay some fee to the attendees, and the sum of this fee should be no less than the losses that would be caused for attending the meeting.

Bargaining is an ideal solution, but it has strict preconditions. The supposition of no transaction cost does not exist in actual circumstances. Bargaining and agreeing upon a transaction have costs in human, money and time, and it is very possible that such costs exceed the negative externalities expected to be corrected. In addition, the two sides of bargaining are not in equal positions. The convener of meetings is usually the management who holds the power of the organization, while the attendees are just ordinary organization members who are just like a heap of loose sand when confronting the management. This situation cannot be improved unless it is explicitly prescribed that the organization members have the right to choose whether or not attend a meeting. Therefore, the solution of bargaining have many limitations. However, despite these limitations, we can not deny that its possibility and value in theory and practice. Actually, some Chinese universities and academic institutions have done quite well in reducing the quantity of meetings. They often grant some subsidies when calling a meeting, thought such subsidies are not granted in the name of meeting allowance. On the one hand, the subsidies can improve the activity of people attending the meetigns and compensate their potential losses to some degree. On the other hand, the management will reduce the quantity of meetings in consideration of the cost.

3.2 Restriction by Moral Criteria

Social criteria and moral rules can restrict people’s behavior to some extent, thus relieving the problem of externality. For instance, most people do not litter. Some of them are afraid of being fined, but a greater proportion are just restricted by internalized moral rules as they do not litter even in places there are no officers.

As for the phenomenon of excessive meetings, the organizational culture of simplicity and saving will be a restrictive force preventing the management from calling excessive meetings. Efforts in this way is embodied in the criticism by the leaders and scholars as mentioned in the beginning of this paper. However, it must be noted that the restriction of moral rules is just a soft power. Therefore, this solution has even greater limitations.

3.3 Market-Based Means

The government can provide effective stimulus or restrictions through market-based policies or means, so as to solve the problem of externality. Specifically, the government may tax the activities of negative externalities, while subsidize those of positive externalities. Tax on negative externality is often called “Pigovian tax”, which is named after a great economist, A. C. Pigou. Theoretically, if we admit meetings may cause negative externality, the government can tax meetings to avoid excessive meetings and the level of tax can be decided according to the frequency and scale of meetings as well as other factors.

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Nevertheless, this method is almost infeasible in actual circumstances. On the one hand, the impact of levying a new tax is very complicated and its final result might be very opposite to the expected goal. To take an example, window tax was levied in the 18th and 19th centuries in Great British. The King wished this would increase the income of the government. As a result, many houses had bricked-up window spaces and the residents lived in dark houses. Finally this tax was cancelled in 1851. On the other hand, the purpose of levying "meeting tax" is to urge the conveners to calculate the cost when deciding whether or not call a meeting, thus reducing externality. This method works under the precondition that the organization is sensitive to cost calculation and has strict restrictions in income and expenditure. Unfortunately, as a Chinese scholar has figured out, "that Chinese government is weak in budget restriction has long been a problem". In fact, not only Chinese government and not only governments, but also all the public sectors in most countries suffer from the problem of weak budget restriction, despite different degrees. Hence, it is not easy to control the externality of excessive meetings which is the most seen in the public sectors.

3.4 Government Regulation

Besides the above measures, the government can correct externalities through direct regulation. Government regulation means government intervention in economic agents' actions in the purpose of rectifying the internal problems of the market. It is usually characterized by the actions take by the government for controlling the price, sale and production decisions of enterprises, for example, setting quality standards of products and services, controlling prices, and so forth. In theory, the government can promulgate administrative orders to control the quantity and scale of meetings, thus reducing the externalities. However, it is doubtful there is a unique standard about the due quantity and scale of meetings in a given organization; even if such a standard maybe exists, it is doubtful the government can find it. Besides, the government has the most redundant meetings, and it has no drive to regulate its own actions as a manager of the society. So, it is hard to determine the effect of government regulation in rectifying externality.

4. Conclusion

This paper is an attempt of using economic method to analyze phenomenon that is usually seen as noneconomic. The similar efforts of applying economic analysis into noneconomic fields, or putting non-market activities into the economic analysis framework, are often called economic imperialism. It represents a development trend of economics, having been accepted by more and more people. A proof is Gary Becker, received the 1992 Nobel Prize in economics. A batch of master economists, such as James M. Buchanan who creates the public choice school and Oliver E. Williamson who is an important representative of new institutional economics, have shown some hues of economic imperialism in their methodology and research fields.

As to the problem of "excessive paperwork and meetings" that has long disturbed the public sectors of China, analyzing it from any applicable perspective would be a beneficial attempt. Through the analysis above, we can draw some conclusions. Negative externality exists in excessive meetings, and this externality is hidden and tends to be neglected. Bargaining, restriction by social criteria and moral rules, market-based means (Pigovian tax), and government regulation are possible solutions for this externality, and each of them has its own limitations. Among these solutions, bargaining may be preferable but it requires equal position between the two sides of bargaining. Again, economics is politics.

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