

P R E F A C E

Do cigarette taxes make smokers happier? This unusual question comes from the title of the research paper (Gruber and Mullainathan, 2002) that started me on the journey of writing this book. I thought the authors were being sarcastic with their title, and the answer to their question would obviously be no. I was wrong. The idea that taxation makes smokers happier is at odds with the traditional economic model of consumption. A tax raises the final price a consumer must pay for a good, and a price increase is usually thought of as making a consumer worse off. Do you feel happier when there are price increases for the products you enjoy consuming? I had a very hard time wrapping my mind around the idea that smokers *welcome* increased taxation. To make matters worse, even if smokers don't welcome increased taxation, some economists argue that these smokers are better off having their behavior controlled *even if they don't realize they are better off*. Within this framework, it is not difficult to justify social policy designed to protect people from themselves.

Protecting people from themselves has traditionally not been much of a concern to economists. The more traditional justification for social control policies such as taxation is to protect people from *others*. Smokers harm not only themselves but others, with their secondhand smoke. Drinkers who drive while under the influence put others at risk. Adverse health outcomes caused by smoking, drinking, and overeating impose health insurance costs on others who belong to the same social or private insurance pool. Countless research papers and books have been written about the pros and cons of numerous social policy options designed to control behavior that is costly to others. This book, instead, focuses mainly on the more controversial justification (at least among economists) for social control policy—to protect people from themselves.

A relatively new field of economics known as *behavioral economics* challenges the standard economic premise that people are fully rational. As briefly explained in the introduction of an important volume on the applications of behavioral economics to various fields of economics:

Over the last decade or so, behavioral economics has fundamentally changed the way economists conceptualize the world. Behavioral economics is an umbrella of approaches that seek to extend the standard economics framework to account for relevant features of human behavior that are absent in the standard economics framework. Typically, this calls for borrowing from the neighboring social sciences, particularly from psychology and sociology. The emphasis is on well-documented empirical findings: at the core of behavioral economics is the conviction that making our model of an economic man more accurate will improve our understanding of economics, thereby making the discipline more useful. (Diamond and Vartiainen, 2007, 1)

In essence, behavioral economics contends that people are far from perfect, and depending on the context, it is these imperfections that provide justifications for social policy to protect people from themselves.

In this book, I discuss both standard and behavioral economics applied to addiction, indulgence, and social policy. Although these issues are related, they can also be quite segmented according to how economists approach them. In chapter 1, I provide a thorough discussion of economic models of addiction, both standard and behavioral. The model I develop in most detail takes into account both approaches. And even though this is the most challenging material in the book, it is highly instructive, especially for students. Fortunately, for the more casual reader, all the key concepts are developed in simpler examples so that when they are referred to later in the book they can easily be understood.

In the next three chapters, I examine specific indulgences: smoking (chapter 2), drinking (chapter 3), and overeating (chapter 4). The vast majority of economic research on these topics does not explicitly take into account models of addiction or behavioral economics, but the standard models still offer interesting insights into the ways economists approach these issues. Throughout these three chapters, I try not to present material that is overly redundant. It would be easy to write a specific section on smoking, and then in the next chapter use the same material and simply replace the word *smoking* with the word *drinking*. For example, in the smoking chapter I discuss how smokers

perceive the health risks of smoking. The key material is on how economists approach risk misperception, and that can be applied to any type of risk. Once discussed in terms of smoking, it is not necessary to repeat all that material again. I try to keep these chapters reasonably separated and focused on unique issues. By necessity, there is some overlap, but not much. Thus, if you are familiar with this material and read just one of the chapters, you may feel that I have not been complete. My goal is to make the three chapters work as a whole and to complement each other, not to substitute for one another.

Social policy is the focus of chapter 5. Because the standard model of rational behavior does not lend itself well to justifying social policy to protect people from themselves, this chapter is largely concerned with the behavioral economics approach to social welfare analysis. My goal is to present a careful and thought-provoking discussion of the pros and cons of using behavioral economics to justify social control policy, especially policies relating to addictive and indulgent behavior. This chapter also offers a concise discussion of *neuroeconomics* (the application of neuroscience to the discipline of economics), an exciting and controversial new field many behavioral economists are enthusiastically embracing. Finally, in chapter 6, I briefly summarize some of the main points made throughout the book, and discuss the role of economic analysis in advising social policy.

The primary target audience for this book is undergraduate students with little or no background in economics, but the material may also be of interest to a broader audience. There are no mathematical equations, no graphs, and no tables and only a few numerical examples that facilitate the discussion when necessary. The goal is to make a large scholarly literature accessible to those who lack the training, or the time, to read the source material themselves. That being said, this book does not offer an extensive scholarly survey designed to aid researchers in the field. As much material as there is discussed here, far more is not addressed. A thorough list of references and comprehensive chapter-ending suggested readings aid the interested reader in delving further into the material.

In choosing material to review, this book focuses almost exclusively on economic research. Many disciplines are concerned with addiction, indulgence, and social policy, and they all offer many interesting and relevant insights, but these other approaches are well beyond the scope of this book. In no sense am I trying to convey that economic reasoning presents the only way to think about these issues, or the best way, but it is the way I have been

trained to think about them. My hope is that this book can be part of an interdisciplinary reading list in *any* public policy course, regardless of the discipline, but it is not meant to be interdisciplinary in and of itself.

In terms of which papers I choose to discuss, my bias is toward recent research as opposed to older (and even possibly seminal) research. Many of the papers discussed are empirical studies, and I treat this material as if the reader has no background in statistics or econometrics. The key debates in the empirical work involve methodological issues that typically lead to conflicting results across studies. I am mostly interested in the questions raised in these studies, the qualitative results, and occasionally the quantitative results; I am *not* trying to formally address these methodological concerns. While I do not discuss any formal statistical issues, if you use this book as a text and your students have the appropriate background, all the original papers are well referenced and easy to acquire.

One last note: I do not include a dedicated chapter on the topic of the economics of drugs. This may seem an unusual decision in a book about addiction and social policy, but I have reasons for doing this. First, much of the theoretical and policy discussion throughout this book can be applied to *any* addictive good, and after covering smoking, drinking, and overeating, there isn't much material remaining that is unique to drugs. Second, the difference between drugs and the other topics is that drugs are illegal and controlled through the criminal justice system. A proper discussion of drugs, then, would require some detail on the economics of crime and punishment, a topic that I recently covered in another book that includes a dedicated chapter on drugs (Winter, 2008).

Acknowledgments

For many reasons, this book turned out to be far more difficult and time-consuming to write than I anticipated. Throughout all the turmoil, my editor at Stanford University Press, Margo Beth Crouppen, was infinitely patient and understanding. I owe her a great deal of gratitude. I also want to thank Jessica Walsh, Rebecca Logan, Judith Hibbard, Mary Ann Short, and everyone else at SUP and Newgen involved with this project I do not know by name.

Several friends, colleagues, and reviewers offered helpful comments on various portions of this book. I would like to thank Gwill Allen,

Ariaster Chimeli, Joni Hersch, Jody Sindelar, and William Neilson for their suggestions.

Over the past three years, I have had an army of students assist me with various aspects of completing this book. I would like to thank Graham Bowman, Jessica Cherok, Nick Cobos, Todd Holbrook, Jane Krosse, Kari Lehmkuhl, Jonathan Leirer, David Plumb, Rebecca Schueller, and Thomas Ruchti. A very special thanks goes to my enthusiastic and incredibly helpful research assistant Chris Matgouranis. This time, I'm not forgetting to thank BPW and HKPW, but I do apologize and offer thanks to anyone I have forgotten.

Finally, I'd like to thank all my family members, who supported and encouraged me throughout some difficult times. No one deserves more thanks than Jenn, who put up with far more than anyone should ever have to put up with from me. Thank you for sticking it out.

Suggested Readings

Two excellent collections of papers on behavioral economics are by Loewenstein and Rabin (2003), and Diamond and Vartiainen (2007).