



## **Economics can be good for health, but it needn't be so dismal**

Eric Crampton

One can easily see why some come to call economics the “dismal science.”<sup>1</sup> The letter by Wilson, Edwards, and Mansoor in this issue of the *NZMJ* entitled *Economics can be good for health: need for rational policy without the influence of vested interests* (<http://www.nzma.org.nz/journal/120-1263/2757>) suggests to me that anything fun should be taxed until we're left with a rather dreary existence devoid of risk, excitement, or sensation. However, for a more positive assessment, one ought look perhaps to a real economist rather than those invoking the discipline's name in pursuit of their personal agendas.

Wilson et al suggest that rational economic analysis calls for large increases in tobacco and alcohol taxes to reduce consumption—taxing obesogenic and subsidising “healthier” food options follow as the next “rational” suggestions. Given New Zealand's rather high rates of STDs, I await their calls for large taxes on unprotected sex and subsidisation of condoms or, in the alternative, strict regulation of sex outside of a monogamous partnership.

Just as differential hazards call for differential taxes on beer and wine, so too might they recommend higher taxes on particularly risky sexual activity. It seems that, for them, reducing health (and, possibly, environmental) risks is all that we really should include in a social welfare function.

Of course, most economists would disagree vehemently. Raising taxes does tend to reduce consumption and, where consumption generates large negative externalities (costs borne by uninvolved parties) can even be efficient: Pigovian taxes (taxes proportionate to those external costs) can push us closer to socially-optimal outcomes. But, there is no inefficiency caused by people choosing to live lifestyles they view as preferable despite the health costs.

If I decide to enjoy a shorter life rather than eek out a miserable existence without wonderfully-marbled steaks, a beer or several, or even the occasional cigar, zero inefficiency is induced thereby.<sup>2</sup>

Some try to build a case for market failure based on “fiscal externalities”: with a publicly-funded health system, I may offload the costs of my choices onto the public purse and take too many risks. But, economic theory suggests that we really oughtn't worry too much.<sup>3</sup> Many economists view these not to be inefficiency-inducing externalities at all.

To the extent that fiscal externalities are a problem, the only two solutions that push us towards efficiency are:

- Massively comprehensive sets of Pigovian taxes and subsidies on every choice that may be affected (again, see my caution about taxes on sex, above), or, more feasibly
- The elimination of public health care.<sup>3</sup>

I tend to think that the losses of either approach are much larger than the losses incurred simply by leaving things alone. It is more socially costly to try and correct all of the distortions caused by people consuming too much risk because of the public health system than it is to simply bear the cost of the distortions.

Moreover, what evidence there is suggests that to the extent smoking induces a “fiscal externality,” the sign of the effect is wrong: smokers pay more in cigarette taxes than they ever cost the public purse. They die earlier of cheaper diseases and collect less in superannuation than do non-smokers.<sup>4</sup> And, as a 10% increase in cigarette taxes correlates with a 2% increase in obesity,<sup>5</sup> one wonders whether increased cigarette taxes consequently require further increases in taxes on fatty foods.

I suppose that the key difference between economists and public health researchers is that economists are typically happier to let individuals be the judges of their own wellbeing. If people make choices that we wouldn't make for ourselves, we're happy for them to do so as long as they're not hurting anybody else in the process.

“De gustibus non est disputandum”:<sup>6</sup> we should not criticise individuals' preferences. Too often, researchers couch paternalistic arguments in allegations of market failure to give the cloak of scientific efficiency to their prescriptions. Doing so is just bad economics. A more honest approach would first specify that the authors want to tell everyone how to live their lives, then present the set of Pigovean instruments as an efficient way of inducing the consumption choices they view as better than that which people would otherwise choose for themselves.

Be not ashamed of your paternalism: embrace it! But, if others disagree, don't blame shadowy special interests for the failure of your policy prescriptions; rather, concede that most people really don't like it when others try to tell them how to live, even if following the advice would lead to slightly longer (but less interesting) lives.

Wilson et al specifically criticise the government's planned policies on climate change. I confess to puzzlement as to the relevance of this issue for a medical journal. Given the goal of reducing emissions, most economists prefer carbon taxes<sup>7</sup> though many prefer trading as second-best where Pigovean taxes are not politically feasible.

Economists also are divided as to whether the entire enterprise is worth the effort: reducing carbon emissions sufficiently to have any effect on warming may well prove far more costly than simply bearing the costs of the warming and reallocating the saved monies to environmental areas where the “bang for the buck” is much higher.<sup>8,9</sup>

But few economists would follow Wilson et al in arguing that a carbon trading system that allocates initial carbon emission rights to current emitters is irrational. Once the system is set up, most economists would argue it's entirely irrelevant (on efficiency grounds) to whom initial credits are allocated: people will trade the emission rights to achieve the efficient allocation of the rights.<sup>10</sup>

Moreover, allocating rights initially to polluters makes the whole thing politically feasible. Such allocations might not be “fair” under some ethical frameworks, but others may well deem it unjust to ask the agricultural sector to bear the lion's share of the costs of appeasing Green Party voters' sensibilities. However, such allocations certainly do not violate efficiency or conditions for “rational policy.” Couching value statements as matters of efficiency, again, is bad economics.

Wilson et al conclude by calling for independent agencies with “real power to introduce and implement effective policy decisions in the interests of health, the environment, and social justice.” If there were real social consensus as to the goals to

be achieved, and their relative weightings as compared to everything else in life, perhaps they would be correct. Of course, we ought to insulate an independent “Tobacco Control Authority” not only from tobacco lobbyists but also from the puritans<sup>11</sup> who view any tobacco use as sin to be extinguished.

There seems to be a great deal of money these days (mostly coming from the public purse) funding moral crusades against the demon weed; I, for one, wonder about the tenure or continued funding prospects of the health researcher finding risks of secondhand smoke to be overblown.<sup>12</sup>

More importantly, we do not have widespread social agreement regarding the goals which Wilson et al wish to achieve by employing economic incentives. People reasonably disagree as to what constitutes social justice, the appropriate tradeoffs between health and happiness, and the weighting of environmental amenities as compared to wealth and economic growth. Such is the hurly-burly of normal politics, and such oughtn’t be shunted away to arms-length agencies charged with forcing us to lead lives devoid of flavour.

I’ll take their recommendations, as I do my dinner, with more than a pinch of salt.

**Competing interests:** The author has received funding neither from evil tobacco lobbyists nor from anti-tobacco zealots. He doesn’t smoke, but won’t think less of you if you do; he’ll just ask that you refrain during dinner or in his home.

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