
Introduction

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To most people, economics is the study of the economy, important but boring issues such as unemployment, economic growth and inflation. To many economists, economics is not a list of issues but a way of understanding behaviour – all sorts of behaviour in all times and places. The economics of suicide is not about its effect on the GNP but about using the tools of economics to understand why people kill themselves. The economics of law – my current field – is not about how changes in the law affect the economy. It is about law as incentive, legal rules understood as ways of changing how it is in the interest of individuals to act. Applications of economics, across the whole range of human behaviour, share one underlying assumption: that behaviour is best understood by assuming that individuals have purposes and tend to take the actions that achieve them – are, at least in that limited sense, rational actors.

From rationality we get the economist's approach to value – the principle of revealed preference. If I act to achieve my objectives, you can deduce the objectives from the acts. If I buy an apple for a dollar but refuse to buy it for a dollar fifty, I must value the apple at more than the former amount but less than the latter. If I boast of my love for great novels but spend my time reading thrillers instead, that tells you two things about me – that I value thrillers more than great novels and that I value other people thinking I like great novels more than other people thinking I like thrillers. Values are judged by actions. Viewed from the inside, as humans rather than as economists, rationality seems an implausible assumption. Most of us observe elements of irrationality and error in other people, occasionally even in ourselves. Viewed from the outside, as observers trying to find a pattern in the interacting choices of millions of people, it is the best clue we have. None of us is perfectly rational. But the tendency to choose on the basis of the ends we desire is a predictable element, perhaps the only predictable element, in our behaviour.

Starting with this one fundamental assumption, economists have generated a useful toolkit of concepts for explaining and predicting behaviour: supply and demand, prices, sunk costs, externalities, opportunity cost, marginal value, present value, risk aversion, joint products and many others.

Such concepts are usually developed in the context of explicit markets where goods and services are exchanged for money. They apply equally well

2 *Economics uncut*

to the broader range of behaviour considered here and in the work of economists such as Gary Becker and James Buchanan. Sunk cost explains why a firm that has already paid the cost of designing a product and building a factory may continue to produce even after discovering that the price the product can be sold at will never pay back the full cost – because losing part of the cost of development and tooling is better than losing all of it, which is what will happen if it scraps the project. It also explains why the customer of a prostitute, having spent time and effort finding someone selling the services he wants to buy, may go through with the deal even after he discovers that the price/quality combination he is being offered is not good enough to repay the cost of finding it. The theory of joint products explains why a rise in the demand for silver will tend to produce a fall in the price of gold – the two being refined from the same ore. It also helps explain the economics of sex, marriage and abortion, since, in a world with imperfect contraception, sexual pleasure and (probabilistic) pregnancy are jointly produced.

Or consider suicide – the subject of Chapter 8 of this book. When is it rational to kill yourself? The simple answer was given more than 200 years ago by David Hume, an economist as well as a philosopher: it is rational to kill yourself when life is no longer worth living. That answer implies predictions of who will kill him or herself and when. It also suggests a highly controversial conclusion – that preventing suicide is not necessarily a good thing.

Hume's explanation of suicide is incomplete; like many starting points, it assumes away a number of possibly relevant complications. Consider the decision to charge a machine gun, a form of suicide engaged in by a very large number of young men early in the last century. The reason to go over the top in World War I was not that life was no longer worth living but that there was something to be gained by dying. It is rational to buy something as long as its value is more than its cost.

If you are unhappy at viewing death in battle as suicide, I have another example. One of my current interests is the legal system of Imperial China. In that system superiors – familial as well as political – had enormous advantages over inferiors. For a son to kill his father was one of the worst crimes known to Chinese law, punished by death by torture. A father was free to kill his son for what we would regard as trivial offences. A senior relative could order a junior relative around. Punishments, even for serious crimes, were scaled up when the victim was senior, down when junior.

The weak did have one recourse. Driving someone – even a junior relative – to suicide was a serious offence. Judging by accounts of actual cases, it looks as though some suicides were committed in order to invoke that legal rule. If life was not very much worth living, the prospect of getting revenge on the person responsible might tip the balance.

This example points out an ambiguity in the economic approach to understanding behaviour. We assume that individuals have objectives and act to achieve them, but we do not know exactly what those objectives are – they might, for instance, include revenge. This is a problem because if we make no assumptions at all about objectives, economics loses all predictive power; you can make any behaviour consistent with rationality by assuming that the behaviour was itself the objective. Why do I spend all my time sitting in a chair doing nothing? Because I like sitting in a chair doing nothing.

The ambiguity is dealt with in practice by a balancing act. We assume objectives that we observe most of us actually have – money to buy goods, health and leisure to enjoy the goods, the welfare of those near and dear to us. We add in other objectives sparingly, when the addition gives a large return in our ability to make sense of the world for a small cost in increased ambiguity of the theory. And we try to avoid using ad hoc assumptions about what people want, to explain away apparent inconsistencies between what they do and what our theory predicts – in the hope that there may be more interesting explanations to be found. Better a theory whose predictions are occasionally wrong than a theory that can explain anything and predict nothing.

Suppose you agree that the economic approach as I have described it is relevant to a wide range of behaviour – that this is a potentially useful toolkit of ideas. What should we use it for?

One use is to make sense of the world around us. Important parts of that world consist of the behaviour of other people – living, dying, buying, selling, marrying, divorcing, getting pregnant or having an abortion, using or not using recreational drugs legal or illegal. The tools of economics provide one way of understanding that elaborate dance; the attempt to understand it and to test that understanding against the observed facts can be a rewarding and intellectually exciting project.

A second answer is that we use economics to figure out what we, and other people, ought to do. At the individual level that can be as simple as deciding whether to buy or rent, stay in school or go on the job market, look for a husband or wife or continue to play the field. The project of advising the rest of the world brings us to fields such as policy analysis and welfare economics, in which economics is used to help decide what laws should be passed, what policies followed by governments, how the world ought to be run.

I am, as you may have suspected, an economist. I am, at this very instant, advising someone on what to do. You are the someone, and the advice is to read this book. Why?

The economics of economics

If you are one of the first settlers on a newly discovered and previously uninhabited island you will, sensibly enough, choose the best location on

4 *Economics uncut*

the island – the most fertile valley if you are a farmer. If you are a miner with a newly discovered prospect, you will try for the richest veins of ore. If you are one of the first entrepreneurs in a new field – making money on the Internet, say – you will try to grab the most profitable opportunities. Perhaps, if you are very clever, you will invent Google.

The same principle applies to academic fields. Economics is about, among other things, unemployment and inflation and growth rates and predicting next quarter's statistics. But it has been about those things for a very long time, long enough so that thousands of economists have made their careers trying to add just a little more to what we know about them. The island is thickly settled, the vein of ore largely worked out. It is still possible, if you are sufficiently brilliant and sufficiently lucky, to do something new, interesting and important. But the odds are not very good.

Consider, in contrast, the economics of suicide, or abortion, or drug addiction, or prostitution, or divorce. A great deal less has been done in those fields – little enough so that, as you will see in the chapters that follow, their authors can cite very nearly everything and summarize quite a lot of it. It follows that there is a lot still to be done – fertile fields lying empty, ore to be mined, puzzles to be solved, careers to be made.

As evidence I offer a short list of puzzles gathered from reading the rest of this book. All of them are implied by those chapters, none is satisfactorily answered. Solutions to some, perhaps most, should be within the power of many of the people reading these words. And finding them should be more fun than adding one more footnote to the next paper on the causes of inflation.

1 *The cost of suicide*

Chapter 8 cites an attempt to estimate the cost imposed on a society by suicide, based on the loss of the output that the suicide would have produced in the rest of his or her life. That approach reflects, in my view, a serious misunderstanding of what economics is about. The output I produce comes back to me as income – the payment I get for producing it. The fact that I choose to kill myself is evidence that the value to me of that income is less than the cost to me of continuing to live. From the standpoint of economics, that cost – whether the misery of rejected love or the pain of a terminal disease – is just as real as the benefit produced by growing another bushel of grain. Economics is not about stuff, it is about people.

How would you do the calculation correctly? How could one estimate, or at least set bounds on, the net cost (or benefit) produced by people killing themselves, taking into account the benefit to those people of not living as revealed by their choice not to live?

2 *The value of drugs*

Calculations of the social cost of drug addiction typically make a similar mistake – they ignore the fact that recreational drugs, like other forms of recreation, provide a benefit in pleasure to the user. Suppose you are willing to take revealed preference seriously, as economists should, and so wish to include that value in your calculations. Using available data and the usual economic approach to evaluating the benefits from production and consumption – consumer and producer surplus – how might you estimate the net cost imposed upon a society by laws making some recreational drugs illegal? In calculating benefits to be compared to that cost, what things do or do not legitimately go into the calculation?

3 *Violence and drugs: which should we punish?*

Suppose you believe that the use of some drugs can be a direct cause of violent behaviour. There are two ways the law might deal with the problem. It could penalize drug use directly or it could penalize it indirectly, by punishing violent behaviour, whether or not drug use is its cause. What are the relative advantages of the two approaches?

4 *Addiction and marriage*

Chapter 1 discusses a model of drug addiction in which current use of a drug increases the future cost of not using it. Chapter 5, in discussing cohabitation prior to marriage, treats it as an investment in information, likely to make people less likely to get into marriages they will later want to get out of. Suppose we apply the ideas of the former chapter to the content of the latter. Living with someone is addictive behaviour – breaking up is hard to do.

What are the implications for the effect of cohabitation on divorce rates? On whether norms that limit cohabitation outside of marriage make us better or worse off? How are your conclusions changed if we assume that cohabitation is addictive for only one partner – an assumption arguably justified by arguments from evolutionary biology suggesting that men have a greater taste for promiscuity than women?

5 *Sex, drugs and rock 'n' roll*

Chapter 6 argues that the consumption of pornography can be viewed as an addiction since, as with addictive drugs, the pleasure from current consumption depends in part on past consumption. By this definition quite a lot of things are addictive, including music, friendship and literature. Can you think of any economically interesting differences between 'good' addictions such as those and 'bad' addictions such as, presumably, heroin and pornography?

6 *Economics uncut*

6 *Profit maximizing cops*

Chapter 4 discusses one issue of resource allocation in the criminal justice system – decisions that may lead to overcrowding prisons. It does not explore the wider question of what incentives police and prosecutors face and what behaviour they imply.

One example is civil forfeiture. Under existing US law, property used in the commission of certain sorts of crimes forfeits to the government even if the owner of the property has not been convicted, or even charged, with doing anything wrong. How does that affect the incentives of police and prosecutors? To what extent does it depend on where the forfeited property goes – whether to the police department responsible for the seizure or to help pay for the US public schools?

For another example, consider that being careful not to convict the innocent makes it harder to convict the guilty. In a world of limited resources, the criminal justice system faces a range of alternatives – from a policy heavily weighted against the risk of convicting an innocent defendant to a policy of going after anyone the prosecutor thinks he can convict, innocent or guilty. How do current rules affect that choice? What evidence can we find in the actual behaviour of police and prosecutors? How might one change their incentives so as to reduce the probability that an innocent will be charged and convicted?

7 *The optimal age of prostitutes*

Chapter 7 provides an interesting account of the market for sexual services, gathered from an online database of reports on British prostitutes by their customers. One puzzling feature of the data is that it implies two different numbers for the age at which a woman is most sexually desirable. One is deduced from prices: the more desirable a woman is the more, on average, she can charge for her services, so we can deduce an optimal age from the age at which the reported price is highest. The other is deduced from reports of consumer satisfaction. The two numbers are not the same.

One possibility is that this is simply a statistical aberration – that if we had enough additional data, the two figures would converge. But I can think of others. Can you? Do they explain other differences between determinants of price and determinants of satisfaction reported in the chapter?

8 *The wages of sin*

The same chapter presents a model of the market for prostitutes in which their high wages reflect the opportunity cost to them of giving up the opportunity for marriage. This assumes that the number of women who do not want to get married is insufficient to provide the prostitution services demanded at a price corresponding to the ordinary market wage, since

otherwise there would be no need for wages to rise high enough to bid additional women out of (future) marriage and into prostitution.

Data provided in the chapter, along with your own observations and other information readily available, ought to be sufficient to tell you whether the explanation offered makes sense. If not, what other explanations might there be for high wages of prostitutes?

9 *Prostitution as an inferior good*

The author of the chapter conjectures that prostitution is more common in poorer societies and offers an explanation – that higher wages in alternative activities, including marriage, make prostitution a less attractive profession. This assumes that rising incomes have no effect on the demand for prostitutes – that richer customers are not willing to pay a higher price – which seems implausible. Can you think of features of poor societies other than their low average income that might make prostitution more common?

10 *Is prostitution a victimless crime?*

In most societies prostitution is either illegal, a violation of social norms, or both. Why? Who is made worse off by the existence of prostitution? Economics rejects the obvious answer: if women thought being a prostitute was worse than some other alternative available to them they would not choose to be prostitutes. Are there more plausible candidates, important groups of people made worse off by prostitution whose opposition might help explain its widespread negative image?

11 *How to create a shortage*

Chapter 10 mentions a shortage of children for adoption in the 1970s and 1980s. Under US law, then and now, payment by adopting parents to a child's natural mother in exchange for permission to adopt was illegal – price control at a price of zero. Under those circumstances, what would we expect to happen as supply and demand curves on the adoption market changed? What would have happened if the parties were free to negotiate on price? What benefits or costs can you see to shifting from one system to the other?

12 *Do accidents cause people?*

Children born out-of-wedlock are commonly viewed as accidents, an unwanted side effect of intercourse. It was therefore widely expected that better contraception and the legalization of abortion would sharply decrease the number of such children. In fact, the pattern has been the opposite. Improved contraception and increased access to abortion in developed Western societies has been associated with a sharp, perhaps

historically unparalleled, increase in out-of-wedlock births. Can you offer explanations for that consistent with the economic approach to human behaviour?

I hope that, by the time you finish this book, you will have answers for some of these questions – or further questions of your own devising, with answers for some of them. If so, you may want to consider enlisting in our enterprise, arming yourself from the economist's toolkit, and setting out to explore the vast wilderness of human behaviour – all behaviour, in all times and places.