

## 1 Approaching Social Issues

**IN ANALYZING** social issues, I was trained as an economist not to make moral judgments about right and wrong, but to try to identify the trade-offs—that is, the costs and benefits—of whatever issue is at hand. I have seen many of my students struggle with this approach, not just in terms of performing well on their exams, but in accepting it as a legitimate way to think about public policy. To introduce them to the economic way of thinking, I present an approach to resolving social issues that has three steps:

*Step 1: Identify the theoretical trade-offs of the issue in question.* This is the costs and benefits step, a concept that is very familiar to every economist. Regardless of the issue, there are always trade-offs to consider. Furthermore, for any policy solution proposed, there will be those in favor of it as well as those against it. If everyone could agree on the resolution of a social issue, it wouldn't be much of an issue in the first place. Economists have a way of identifying costs and benefits that few others would ever consider, largely due to our ability to detach ourselves from many of the personal concerns that can complicate policy analysis. We can argue in favor of drug abuse, theft, and even death. We can argue against safer products and pollution control. In sum, economists are a lot of fun to talk to at parties.

*Step 2: If possible, empirically measure the trade-offs to determine if the costs outweigh the benefits, or vice versa.* If you are interested in propos-

ing a policy solution, it helps to have some idea of the relative magnitude of the trade-offs you identified in step 1. To justify your solution, it generally will be useful to argue that the benefits of your solution outweigh the costs. How you want to measure the trade-offs is an important issue. You may just have a sincere gut feeling about the value of your solution, or you may want to pull out the serious statistical tools to support your claim. Either way, step 2 can be a difficult stage, for several reasons.

First, empirical analysis requires data, which can come from several sources such as surveys, observable market information, or controlled experiments. Unfortunately, data collection is often difficult to do and as a result, data are often measured inaccurately. Second, the real world is a big and messy place to study. A lot of data that ideally would be needed to accurately measure trade-offs simply may not be available. Third, there are many different statistical methods that can be used to measure the same trade-offs. Advances in computer technology and statistical software have made it possible for almost anyone with a computer to do sophisticated empirical work, so you often get to see many different approaches to the same problem. Finally, not only can the empirical approaches differ in statistical techniques, but also in empirical design. What data are most relevant? If there are alternative ways to measure the same variable, which measure should be used?

Fortunately, there are procedures that deal with many of these problems, and the best empirical work deals openly with these shortcomings. What I believe is most important for empirical work is to allow others to be able to verify the integrity of your data, and to be able to replicate your results. But this may not always be possible if there are proprietary rights that make the sharing of data impossible. Still, being able to examine the robustness of the results of any particular study is important in determining the value of that study.

It is often the case that you can have a group of economists who are in complete agreement over step 1, but in complete disagreement over step 2. I should point out, however, that disagreement over step 2 in no way diminishes the value of economic reasoning. There are legitimate and passionate disagreements in how to measure trade-offs, but this

simply is an unavoidable consequence of the nature of empirical work. Any academic discipline that attempts to apply empirical analysis to policy issues will have to confront these same problems.

*Step 3: Recommend (or implement) social policy based on the first two steps.* This may be the most exciting step if you are passionate about public policy. While there are some economists who are in a position to actually implement social policy, the bulk of public policy economic research is meant to imply, or recommend, policy solutions. Many economists keep their research largely to themselves and to a small group of scholars who are interested in the same issues. But some economists step out into the public arena and make their positions clear. The fun begins not only when other economists are right out there bumping heads with them, but when scholars and analysts from all walks of life are also thrown into the mix. Step 3 is where you get to flex your muscles and find out if anyone who is in a position to make policy decisions actually cares about what you have to say. This step is definitely the loudest of the three steps.

Taken together, I believe that these three steps present a reasonably coherent approach to public policy analysis: identify trade-offs, measure trade-offs, and recommend policy. These steps on their own, however, are still incomplete. They have no policy relevance until a policy objective can be identified.

### OBJECTIVELY SPEAKING

As outlined above, many of the academic debates over public policy occur due to the difficulties associated with step 2, the empirical measurement of trade-offs. But there are also difficulties in pursuing the other two steps. It is one thing to say that we are going to identify trade-offs, but it is another thing to say exactly *which* trade-offs we are going to identify. In a perfect world, it would be nice to identify every conceivable cost and benefit associated with a policy solution, no matter how far-reaching the trade-offs may run. In practice, however, and even in theory, only the most relevant trade-offs are usually considered.

And this, in turn, often depends on what policy objective is being considered.

If you are going to recommend or implement public policy, you need to have a policy objective. For example, let's assume that we *can* accurately and unambiguously identify and measure costs and benefits. This would appear to make policy analysis an easy task. Propose a policy solution. If the benefits of the solution outweigh the costs, adopt the solution. If not, abandon the solution. If there is more than one solution, find the one that has the greatest spread between benefits and costs. This is a common economic approach to public policy as economists are often solely concerned with maximizing the spread between social benefits and social costs, or what is often referred to as *social welfare* (or *social wealth*) maximization.

If our policy goal is to maximize social welfare, we want to try to identify trade-offs that affect social welfare. For example, assume a new workplace safety regulation is being enforced in which a specific safety feature must be installed. A benefit of the regulation is that it may reduce worker injury or death. A cost of the regulation involves the resources that must be used to physically install and maintain the safety feature. Whatever trade-offs are identified, we can then move on to the next step and measure them.

In measuring trade-offs, it is common for economists to place a monetary value on all of the relevant costs and benefits. For example, the installation of the safety feature will involve direct costs that are likely already measured in dollars. But there may be less direct costs, such as the value of lost production if the plant must be closed down while the feature is being installed, or if workers have to spend time in training sessions. Dollar equivalents can also be established for these costs. On the benefits side, a dollar value equivalent can be established for the value of lives saved or injuries avoided. Although this may seem coarse, all of the trade-offs we identify must be measured in the same units, such as dollars, to allow for a direct comparison of the costs and benefits of the safety feature. Thus, social welfare is often measured in dollars.

Even if there is agreement on the broad objective of maximizing social welfare, policy objectives may differ due to differences in the def-

inition of social welfare. A good example of this problem can be found in the economic analysis of crime. To deter crime, we must use resources for the apprehension, conviction, and punishment of criminals. These costs are offset by the benefits in crime reduction. But should the benefits that accrue to individuals who commit crime be added to social welfare? If yes, this may suggest that fewer resources can be used to deter crime because crime itself has offsetting benefits. If no, crime is more costly to society and more resources may be needed for deterrence. Notice, however, that it is a *fact* that a criminal reaps a benefit from committing a crime (or why commit the crime?), yet it is an *opinion* as to whether or not that benefit should be counted as social welfare. Policy objectives and definitions of social welfare are *subjectively* determined. This accounts for why social issue debates are often extremely contentious.

What, then, should be counted as social welfare? Throughout this book, what counts as social welfare will depend on the specific topic of interest, whether it is safety regulation, product liability, secondhand smoke, or copyright protection. Economists tend toward inclusiveness in defining social welfare. That is, they tend to be concerned about identifying the existence of costs and benefits, and not concerned about who reaps the benefits or incurs the costs. In other words, a dollar is a dollar, regardless of who gets the dollar. But this leads to another problem. Even if we can agree on all the trade-offs that should be included in social welfare, we may disagree on the appropriate social policy goal. For example, instead of only being concerned with welfare maximization (*efficiency*), we may also want to be concerned with how that wealth is distributed (*equity*).

Distribution of wealth issues can be very difficult to deal with. The concept of fairness tends to be open-ended. For example, what if you and I are trying to split \$1000? If I suggest that we each get \$500, I wouldn't be surprised if you considered that to be a fair split. But what if I am rich and you are poor? Maybe, then, to remedy that inequity you should get \$750 while I get only \$250. Wouldn't that be fair? But then again, if I am rich and you are poor, \$250 may be as valuable to you as \$750 would be to me. After all, we may want to consider how each dollar increases our levels of happiness *on the margin*. If a

rich person is not likely to value one extra dollar as much as a poor person would, to be fair we may want the rich person to get more. The important point with this exercise is that one can rationalize *any* split of the \$1000.

In all, proposing policy solutions can lead to endless debate. Even if there is agreement on the objective of social welfare maximization, there may be disagreement as to what should be included in the definition of social welfare. And even if there is agreement over the definition, there may be disagreement over the appropriate goals of social policy. How, then, are we to proceed with the three step approach to resolving social issues?

### MY GAME PLAN

In this book, I am going to focus primarily on step 1. Identifying trade-offs is what I personally am most interested in doing as an economist, and I enjoy thinking abstractly about social issues. Furthermore, step 1 is the least contentious step among economists as there is generally a strong agreement over the identification of costs and benefits. Finally, step 1 is where economic policy analysis begins.

Although I will discuss several empirical studies throughout this book, step 2 will not be emphasized. I prefer to focus on the least contentious aspects of economic analysis. More to the point, the important debates over empirical work do not really involve the opposing results of the studies. Instead, the debates focus primarily on choice of data and statistical techniques. If you have some basic background in statistical economics (what economists refer to as *econometrics*), discussing how empirical studies differ can be an important and fascinating exercise. I'm going to assume, however, that the typical reader of this book does not have such a background. If you do have further interest in empirical research, I will provide you with several references at the end of each chapter.

As for step 3, one thing I certainly will not do is to present my recommendations for policy solutions. What I personally think about public policy issues has absolutely no bearing on understanding basic economic reasoning. What I will do, however, is often consider the goal

of social welfare maximization (that is, maximizing the spread between social benefits and social costs) as my policy objective. How social welfare is defined will depend on the specific issue at hand, and this will become clearer in the chapters to come. I will not, however, be concerned with distributive issues.

I do want to make it clear that in no way I am arguing that the objective of social welfare maximization is what policy decision makers actually *do* care about. The economics field of *public choice* addresses the issue of what policy makers *do* care about, and if you have further interest in that topic, I recommend that you find out more about that field. I am also not going to claim that social welfare maximization is the objective that policy makers *should* care about. There are many legitimate social policy goals, and what policy makers should care about is a matter of opinion.

My main reason for focusing on a specific economic objective is that it will allow me to place the trade-offs I identify into a policy context, and I believe that this will facilitate my presentation of economic reasoning. Try to think of identifying trade-offs in the context of social welfare maximization as an abstract exercise, designed to teach you how to think like an economist, not to teach you how to resolve complex real world social issues. Although the ultimate goal of policy analysis is to answer questions about how to resolve these issues, I want to focus on the first step toward that goal—*raising* the appropriate questions about trade-offs. No matter how you decide to measure trade-offs, or how you decide to consider trade-offs in any social policy objective context, *trade-offs always exist*. No amount of disagreement about public policy issues can ever change that fact.

### NOTES

If you want to learn more about applying statistical techniques to economics, there is an excellent source by Peter Kennedy, *A Guide to Econometrics*, 5th ed. (Cambridge, MA: MIT Press, 2003).

The use of efficiency and equity criteria in identifying social policy objectives is currently a much-discussed topic largely due to the recent book by Louis Kaplow and Steven Shavell,

**THERE ARE ONLY TRADE-OFFS**

I once heard an economist offer the following universal policy advice: *there are no solutions; there are only trade-offs*. My interpretation of that comment is that no matter what policy solution is offered for any particular social issue, that solution will never be satisfactory to everyone. There will always be trade-offs—costs and benefits—that make the concept of a “solution” ambiguous, at best. Even with an accurate measurement of the costs and benefits, you still have to deal with the problems of defining social welfare and identifying a policy objective.

I have a friend whose job puts him in a position to provide policy advice that could possibly have real-world impact. I once asked him how comfortable he was being in that position, and he had no qualms at all about it. He then asked me the following question: “If policy decisions have to be made, wouldn’t you be happier having them made by economists rather than by anyone else?” That’s a good question, and after thinking about it for a few minutes, I decided that no, I wouldn’t be happier. If economists were making all the policy decisions, we would never be given credit when things turned out well, but we would quickly be blamed when things turned out badly. Who needs that kind of pressure? Not me, but I know plenty of economists who would enjoy nothing more than having their advice taken seriously. But exactly how good is economic policy advice? To address this question, I’d like to return to the issue of copyright protection and fair use (i.e., legal copying) I discussed in chapter 4.

How to resolve the classic trade-off between providing incentives to create intellectual property versus the problem associated with monopoly pricing has received a lot of attention from economists, especially recently. The Napster case caught the attention of several high profile, extremely well-respected economists. The merging of copying technology and the digital age brought the issue of fair use to the forefront of the debate on copyright protection in the music industry. As is often the case with a controversial social issue, some economists argued in favor of fair use for music file-sharing, and others warned of the dangers of financially crippling the music industry. This disagreement seems to lend credence to an old joke: if you put three

economists together in one room, they will come out with four opinions. The debate over copyright protection provides an excellent setting to more closely examine exactly what it is economists agree and disagree about.

Economists generally agree on the fundamental *theoretical* trade-off that copyright protection presents: the ability to provide incentives for the creation of intellectual property versus the social loss of monopoly pricing. Also, they often agree on the definition of social welfare, as well as on the objective of social welfare maximization. But even with these agreements, they can disagree on the measurement, either formally or informally, of the appropriate costs and benefits. Some economists sincerely see music file-sharing as a threat to the future creation of intellectual property. Others believe that musicians can still thrive with no copyright protection. This type of disagreement may never easily be resolved, and it demonstrates just how difficult it is to apply opposing viewpoints to what eventually must be an actual policy decision.

In chapter 1 I discussed the difficulties of doing empirical work to measure trade-offs. To the extent that these difficulties lead to differences in the way economists measure costs and benefits, these differences do not depict a shortcoming in economic reasoning. Personally, I believe that when it comes to the type of social issues I discussed in this book, there are not many fundamental differences among most economists in the way they think about them. The differences that do exist often can be traced to the way economic reasoning typically must be quantified to make it applicable to real world issues.

Because of the difficulties involved in finding definitive policy solutions, many economists choose to adopt a consistent policy viewpoint across many issues. For example, some economists believe that markets almost always work, while others believe that markets rarely work. Some economists believe that if markets fail, they fail for reasons that cannot be alleviated by government intervention. Others believe that market failures *require* government intervention. Other economists, myself included, tend to take an issue by issue approach to public policy. I believe that markets have advantages and disadvantages relative to government intervention policies, and these trade-offs are often issue-specific. The bottom line is that opposing policy positions are unavoidable.

able due to the open-ended nature of policy analysis. This holds true not only for economists, but for any public policy discipline.

### AND IN MY OPINION

When I teach policy courses, I often get asked by my students to discuss my personal opinions about the social issues we study. There's never any reason for me to do this because my personal opinions have absolutely no bearing on what I want my students to learn in my courses. Furthermore, I'm not even sure I still have many personal opinions that can be distinguished from my professional opinions. I've been thinking about trade-offs for so many years that I rarely choose sides in an issue. Of course, if there is an issue that has a direct bearing on my life, I tend to have a personal opinion that may very well deviate from my professional opinion.

People tend to care about social issues in terms of how they are personally affected by policy proposals. This is only natural. Nonsmokers are likely to support antismoking laws; smokers are not. For example, the city of Athens, Ohio, where I live, was considering banning smoking in bars and restaurants. It was nice of the city to be considering that issue precisely when I was teaching about smoking in my health economics course. I asked my class how many of them supported the ban, and they were overwhelmingly in favor of it. I asked one specific student who raised her hand in support of the ban exactly why she supported it. She said that she was going to answer not based on any social consideration of the trade-offs, but only in terms of her personal feelings. She hated the smell of cigarette smoke. Period. Her answer impressed me as it demonstrated that she understood the difference between thinking about the issue in a social way versus a private way. On the final exam, however, she dealt with similar issues by only considering the social trade-offs. Smart student.

Instead of presenting my personal opinions about the social issues I've discussed in this book, I will summarize my approach to thinking about such issues. When considering personal risk-taking activities that *do not* adversely affect others, such as the individual decision to smoke, I find it difficult to justify social intervention to control such