

Prisoner's Dilemma: non-individualist foundations of social welfare.

	Prisoner B Stays Silent	Prisoner B Betrays
Prisoner A Stays Silent	Both serve one yr	Prisoner A serves ten years Prisoner B goes free
Prisoner A Betrays	Prisoner A goes free Prisoner B serves ten years	Both serve six years

What does PD illustrate?

- 'Collective action failures'
- Individually rational behavior can defeat collective rationality.
- Individual incentives not always aligned with collective good.
- Hobbes' state of nature.
  - Private deals not a substitute for good laws.
  - Need state w/ absolute power of command.

Applications of PD

- Why drivers don't clear intersections.
- Why 'arms races' happen.
- Why vaccines are mandatory. (free-rider)
- Why cig. mfrs. supported ad. ban.
- Why industry wants environmental regulation.
- Why politicians' 'lies' don't give us a right to withhold taxes.
- Why (nearly) all contracts should be enforced by courts.

Lessons of PD

- Markets depend on good, generalizable laws.
- Public goods undersupplied by markets.
- Social welfare and collective action failures.

Product Safety

The problem

- Exploding light bulbs, sharp toys, hot coffee, Ford Pinto, cigarettes.

- Visible harms and disasters.
- Role of legislators, enforcers, consumer advocates, regulators.
- New issues: robots.

#### The Problem cont'd

- Pharmaceutical industry & inadequate testing.
- Exporting unsafe products to poor countries.
- Asbestos:
  - firms hid knowledge of dangers.
  - Exposure for seven decades. Zonolite in Canada
  - Firms declare bankruptcy, evade prosecution and liability
  - Removal safety issues.

#### Government's Role

- Safety and environmental regulations (e.g. children's car seats).
- Bans, prohibitions: underage smoking, ungrounded plugs, knives on planes.
- Licensing restrictions: doctors, etc.
- Warnings and labels: cigarettes, halogen bulbs, trans-fat.

#### Critics

- Gov't should ban, regulate, punish more.
  - Children in swimming pools.
  - Power tools.
  - Amusement rides at Ex.
  - Antibiotics, growth hormones, pesticides in food.
- Education and information
  - Product labeling.
  - Belief that people are irrational (paternalism).

#### More systematic critiques

- Money and big business (limited liability).
- Corporations as 'soulless cost-externalizers'.
- Power.
  - Corporate influence over gov't.
  - Poorly organized and informed consumers.

#### How do Economists respond?

- Gov't often too quick to ban, not too easy on big business.
- Individuals take risks, often rationally.
- Safety is a continuum – too much safety?

- Trade-off between safety and other values:
  - Usefulness (small cars).
  - Availability (bikes vs. cars).
  - Enjoyment (speedy cars).

#### More on Economists' Views.

- Accidents are co-produced by users.
- Safety creates offsetting behavior (anti-lock brakes).
- Warnings and education: do we have time (healthy food, reading labels)?
- Market behavior reveals 'how much' we value safety (rational smokers).
- Substitution: too much air safety → flying is unaffordable → more will drive and get killed

#### Insights of marginalism

- E. Coli contamination of food.
1. Water supply regulations:
    - \$200 million saves 50 lives (\$4 mil. per life).
  2. Add universal inspection
    - \$1 billion more saves 25 additional lives (\$40 mil. Marginal cost per life).
- Should we adopt policy #2?
  - Value of lives saved.

#### Winter on 'valuing lives'

- Labour market shows us the value of a saved life:
  - Amount of wage premium sought for each expected accidental death at work.
- Problem in Ford Pinto case: company had incentive to under-value life.
- Misalignment of private and social costs.

#### Another case – SUV's

- SUV's represent a prisoner's dilemma.
- SUV's bought for safety.
- Each SUV bought creates incentive for another to do the same.
- Result: we have 'too many' SUV's.
- Individual rationality not matched with social rationality

#### Drug safety, testing, approval

- Belief that FDA or Health Canada panders to 'Big Pharma'.
  - Pushing drugs (instead of healthy lifestyle, environment, etc.)
  - Advertising.
  - 'Me too' drugs.
  - Patents as gov't-enforced monopolies.

- Clinical trials not publicized.
- Experts, universities and academic journals – conflict of interest

#### Ogus' reply

- Too much att'n on deaths caused by approved drugs.
- Not enough on lives that could have been saved by approving more/faster.
- Incentives problem for approval agencies:
  - Avoiding harm punished more than success rewarded.
  - 'too much' caution as bad as 'too little'.

#### Ogus (cont'd)

- An alternative:
  - Brits approve faster, do better post-marketing studies.
  - In the end, same drugs approved.
- Costs of delayed marketing
  - Deters drug innovation.
  - Deters narrow market (orphan) drugs.

#### What's happened since 1980's

- 1992: more resources toward speedier approval and better testing.
- Post-approval monitoring remains weak (unlike Britain).
- 2006: Industry resisting publicizing clinical data.
- FDA and Health Canada failures