

Unpleasant Economists

BY WALTER E. WILLIAMS



Economists are not the most pleasant people to have around when others are delightfully praising the benefits of this or that public policy. We acknowledge the existence of scarcity, the fact that to enjoy more of one thing requires having less of another, which in turn forces us into bringing up the unpleasant topic of costs. Let's look at how unpleasant economists and their subject can be.

The Energy Independence and Security Act of 2007 mandated that oil companies increase the amount of ethanol mixed with gasoline. The argued benefits were that it would decrease our dependence on foreign oil and provide a more environmentally friendly fuel. Anyone with an ounce of brains would have realized that diverting crops from food to fuel would raise the prices of a host of corn-related foods, such as corn-fed meat and dairy products. A Purdue University study found that the ethanol program has cost U.S. consumers \$15 billion in higher food costs in 2007, and it will be considerably higher in 2008. Higher food prices, as a result of the biofuels industry, have had international consequences as seen in the food riots that have broken out in Egypt, Haiti, Yemen, Bangladesh, Mexico, and other nations.

Anti-Terrorism Spending

The victims of benefits-oriented policies, such as those of the Energy Independence and Security Act of 2007, are visible, but for many other policies the victims and the costs are invisible. That is the case with anti-terrorism expenditures. Take Wyoming with its two major cities: Cheyenne (population 53,000) and Casper (50,000). Federal and state homeland security

anti-terrorism expenditures there in 2007 totaled \$6,673,910. The benefits of such expenditures are that they might prevent Wyoming from being attacked and if attacked, ameliorate some of the consequences.

There's no precise way to determine Wyoming's risk of a terrorist attack and its cost, but simple reasoning suggests that too little or too much can be spent. The costs of spending too little might result in a devastating terrorist attack that could have been prevented. The costs of spending too much are less obvious because

the victims are invisible. For example, the price for dump trucks for snow and ice removal ranges between \$140,000 and \$160,000. How many Wyoming lives could have been saved had some of the anti-terrorism expenditures been spent on additional dump trucks to clear streets and roads of snow and ice? Those victims are invisible.

Environmentalism

Environmentalists have been very active and successful in California in getting huge tracts of land set aside as "open space," on which nothing can be built, and enacting "smart growth" policies severely restricting residential and business construction.

Open space and smart growth are seen as benefits. The cost is skyrocketing housing prices at some multiple of housing prices nationwide, whereas before the 1970s they were similar. Dr. Thomas Sowell wrote, "One of the ways of coping with high housing costs is with 'creative'—and risky—financing. Roughly two-thirds of the home mortgages in the San Francisco Bay area are

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interest-only mortgages. Theoretically, you could make mortgage payments forever without acquiring a cent of equity in your home. . . . In reality, the interest-only mortgage payments apply for only a limited number of years—three to five years in most cases—after which the payments rise, so as to contribute something toward the payment of the principal. People who expect their incomes to rise significantly in a few years assume that they will be able to handle the higher payments then. Of course that assumption can turn out to be wrong and the house can be lost” (“Froth in Frisco?” *Wall Street Journal*, May 26, 2005). Such practices have contributed to the subprime crisis we now face.

There’s another cost. According to Census estimates, the number of black residents in San Francisco has shrunk from 13.4 percent of the population in 1970 to just 6.5 percent in 2005—the steepest decline in any major American city. Guess what. San Francisco Mayor Gavin Newsom appointed a task force to study how to reverse decades of policies that black leaders say have fueled the flight. He made no mention of environmentalist policies that have driven the cost of housing beyond the reach of many blacks.

FDA

The Food and Drug Administration’s (FDA) beneficent mission is to ensure the safety and effectiveness of pharmaceuticals. FDA officials can make two types of errors: approving a drug that has unanticipated dangerous side effects, or disapproving and delaying a drug that is both safe and effective. An FDA official has unequal incentives to avoid these two types of errors. Making the first error, erring on the side of under-caution, the victims are visible and he is directly accountable. Erring on the side of over-caution, the cost and the victims are invisible and there is no accountability. Victims die never knowing why.

In an article in *Regulation* magazine, Robert M. Goldberg examined some examples of the costs of FDA delay:

Beta Blockers: Beta blockers regulate hypertension and heart problems. The FDA held up approval of beta blockers for eight years because it believed they caused cancer. In the meantime, according to Dr. Louis Lasagna of the Tufts University Center for the Study of Drug Development, 119,000 people died who might have been helped by that medication.

Clozaril: First approved and used in 1970 in Europe, Clozaril’s ability to treat schizophrenics who did not respond to other medicines became known in 1979. Yet the drug was not approved in the United States until 1990 because companies believed the FDA would reject it on the grounds that 1 percent of all patients who take the drug contract a blood disease. As an article in the *New England Journal of Medicine* marveled . . . : “What is remarkable is that [Clozaril] has a beneficial effect on a substantial proportion [30 to 50 percent] of patients who have an inadequate response to other . . . drugs.” FDA delay therefore meant that nearly 250,000 people with schizophrenia suffered needlessly, when relief was at hand.

Mevacor: Mevacor is a cholesterol-lowering drug that has been linked to reduction in death due to heart attacks. It was available in Europe in 1989 but did not become available in the United States until 1992. Studies confirm what doctors saw to be the case: taking the drug reduced death due to heart disease by about 55 percent. During that three-year period as many as a thousand people a year died from heart disease because of the FDA delay.

The economist’s bottom-line message is that for the sake of human compassion and efficiency, any discussion of benefits from this or that public policy should entail an explicit acknowledgment of costs. 