Free Market Madness: Why Human Nature Is At Odds With Economics---And Why It Matters

Introductory economics textbooks typically list four market failures that may justify government intervention in markets: imperfect competition, externalities, public goods, and asymmetric information. Over the last few decades, research in behavioral economics has highlighted a fifth possible "market failure": individuals may fail to behave in their own self-interest. Peter Ubel's book, *Free Market Madness*, provides an overview of the evidence that people make mistakes in pursuing their own well-being and argues in favor of paternalistic policy interventions to prevent those mistakes. The target audience is the educated public, particularly those who might have been libertarians until having read this book.

Ubel, a professor at the University of Michigan Medical School and a leading researcher on the psychology of risk perception, is ideally suited to write a popular book on this topic. He is an excellent writer who engages and entertains while he educates. Because of his wide-ranging expertise in psychology, philosophy, medicine, and behavioral economics, he can skillfully interweave research findings and perspectives from multiple disciplines, while accurately representing each.

The book is divided in four parts. Part I explains the classical economic approach to behavior, with overeating as a case study. The reader is treated to brief history of economic analysis, from Adam Smith's specialization of labor through Francis Edgeworth's indifference curves through recent rational choice analyses of obesity (e.g., David Cutler, Edward L. Glaeser, and Jesse M. Shapiro, 2003). Here as throughout the book, Ubel avoids a simplistic good-or-evil view of markets, emphasizing how markets can generate revolutionary advances in medical treatment, like insulin shots for diabetes, while at the same time generating "advances" in processing of fatty foods that lead to obesity and make diabetes treatments more necessary.

Part II chronicles the emergence of behavioral economics, beginning with Daniel Kahneman and Amos Tversky's early work in the 1970s and ending with the recent proposals by leading behavioral-economics researchers for cautiously paternalistic government policies. Ubel is supportive of Richard H. Thaler and Cass R. Sunstein's (2003, 2008) "libertarian paternalism"---which advocates only policies that help the irrational without limiting freedom at all, such as government-mandated default options that are set to be appropriate for typical preferences but which easily can be overridden---as well as Colin Camerer, Samuel Issacharoff, George Loewenstein, Ted O'Donoghue, and Matthew Rabin's (2003) "asymmetric paternalism"---which advocates only policies that help the irrational a great deal while limiting freedom only a little, like taxes on sin goods. However, Ubel argues that even if individuals were defaulted and taxed into better behaviors, they would continue to harm themselves in myriad ways, e.g., by eating too many desserts and committing to too few workouts. For these reasons, in order to promote individuals' well-being, society should experiment with paternalistic policies that stray less timidly from libertarianism.

Part III surveys the evidence that psychological factors ignored by the classical economic approach help explain overeating, factors that include limited self-control, the social contagion of peer behavior, and a host of subtle, unconscious influences that lead to mindless eating.

Part IV discusses additional biases that affect a variety of important life decisions. People choose to live too far from work because they systematically mispredict how miserable commuting will be. Information provision may not help because people frequently make decisions based on feelings, rather than information. For example, Ubel has found in his own work that individuals are significantly more concerned if told their risk of a stroke is 120-in-1,000 than if told it is 12-in-100 because more people are described as a having a stroke in the first case, making the risk feel larger (Brian J. Zikmund-Fisher, Angela Fagerlin, Todd R. Roberts, Holly A. Derry, and Peter A. Ubel, 2008). Marketers exploit these biases under the guise of providing information. To take one case, Philip Morris's parent-targeted campaign that advised parents to talk to their children about smoking actually *increased* teenagers' interest in smoking and *reduced* their concern about tobacco's harmfulness. At the end of Part IV, Ubel argues that the government can and should adopt policies that balance liberty and well-being, and can do so without sliding down the slippery slope into a nanny state.

For economists who are not immersed in the behavioral economics literature, reading the book is a quick and easy way to learn a huge chunk of behavioral economics and economics-relevant psychology. Reading the book is an especially valuable investment for instructors of undergraduate economics courses because its main message---that since we humans are not fully rational, it may be profitable for firms to exploit our decision errors, hence government intervention can improve welfare even absent other market failures---will soon be standard in textbooks. The book is also great as a recommendation for an undergraduate (regardless of amount of economics background) who is looking to learn more about behavioral economics outside of class.

Behavioral economics researchers will benefit less from the book because the main message is already well-known in the literature. However, Ubel brings a fresh perspective in three ways. First, he points out where his own experience as a practicing physician leads him to question the adequacy of an economic model for guiding policy. The rational model of addiction (Becker and Murphy, 1988), for example, feels incomplete as an explanation for the severe withdrawal behavior exhibited by those who are physiologically addicted to alcohol, such as Ubel's patient who swallowed three dispensers' worth of Purell Hand Sanitizer and then collapsed in his hospital room. Second, although Ubel discusses most major strands of behavioral economics research, he puts at least equal emphasis on unconscious influences that have received little attention from economists yet deserve more. For example, in the realm of eating behavior, even behavioral economists may be surprised to learn that people eat more and faster in larger groups, eat less when they can see how much they have already eaten, and think food tastes better when they believe it is less healthy. Finally, Ubel advocates that the government harness the same unconscious influences in order to help consumers that firms use to exploit consumers. Just as putting a skull and crossbones on poison labels deters people from ingesting poison, evocative images might be more effective in deterring unhealthy eating than dry calorie information, which has proven to be ineffectual.

Although Ubel makes some creative policy proposals, such as teaching techniques for self-control in the public schools, the main limitation of the book is that there are few new proposals that are more aggressive than the cautiously paternalistic ideas already in the literature. A reader who might otherwise be ready to buy into Ubel's call for taking seriously the tradeoff between freedom and well-being may finish the book not being quite sure what he is buying.

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