



STANTON A. GLANTZ, PhD
Professor of Medicine (Cardiology)
American Legacy Foundation Distinguished Professor of Tobacco Control
Director, Center for Tobacco Control Research and Education

530 Parnassus Suite 366
San Francisco, CA 94143-1390
Phone: (415) 476-3893
Fax: (415) 514-9345
glantz@medicine.ucsf.edu

June 2, 2014

BROAD RANGE OF ECONOMISTS AGREE THAT FDA'S USE OF CONSUMER SURPLUS IS WRONG, INCLUDING JONATHAN GRUBER, WHOSE WORK FDA CITES AS JUSTIFICATION FOR DOING SO

Docket No. FDA-2014-N-0189

On June 2, 2014, Reuters published a long article about the FDA's application of a 70% consumer surplus discount to account for the "lost pleasure" due to any health benefits generated by the proposed deeming rule because people smoke less. * (The FDA had discounted the health benefits of its failed warning labels by 50%.)

Not a single outside economist Reuters contacted supported the FDA's decision, including several conservative economists and Jonathan Gruber, whose work the FDA quoted to justify what it did.

Here is what they said:

John Graham, who headed the White House Office of Information and Regulatory Affairs, which vets agencies' cost-benefit analyses, under President George W. Bush, said he could "not recall a specific instance" during his 2001-to-2006 tenure "where lost enjoyment played a significant analytical role."

Loss of pleasure had occasionally been used when analyzing proposals to ban products, Graham said, but was not treated as a deduction from benefits, as the FDA is doing. ...

It may seem counterintuitive that sellers would not charge the maximum tolerable price. But whatever price they pick, there are always consumers willing to pay more, explained economist **Stan Veuger of the American Enterprise Institute**, a conservative think tank in Washington, D.C.

The additional amount is the consumer surplus, which economists interpret as the dollar value of the extra utility, or enjoyment, users get. Calculating the precise size of the surplus is not straightforward and economists often debate how large it is, Veuger said, but he added that the 70 percent used by the FDA "feels really, really difficult to justify."

* Sharon Begley. FDA calculates costs of lost enjoyment if e-cigarette rules prevent smoking. Reuters. June 2, 2014. <http://www.reuters.com/article/2014/06/02/us-fda-tobacco-insight-idUSKBN0ED0A620140602>

More problematic, he and others argue, is applying the idea of consumer enjoyment to an addictive product like nicotine. Once a product becomes addictive, rational consumer choice goes out the window, said economist **Ken Warner of the University of Michigan**. The consumer surplus concept "should never be applied to an addictive product," he argued.

In addition, nearly three-quarters of smokers say they would like to quit. Their frustration at their inability to do so means many experience "incredible levels" of displeasure, said Warner, a leading cost-benefit scholar. He said that means the concept is not relevant to the vast majority of tobacco users. ...

In the FDA document published online, the staff economists cite a 2002 paper by health economist **Jonathan Gruber of MIT** as a source for their 70 percent assessment. After Reuters called the analysis to his attention, Gruber said the fact that a majority of smokers pick up the habit as teenagers and become addicted before they are fully aware of the consequences, meant the FDA was wrong to invoke the "consumer surplus" concept.

"I think this is really a misapplication of my work," Gruber said.

A copy of the full story is appended to this comment.

A handwritten signature in black ink, appearing to read "Stanton A. Glantz". The signature is fluid and cursive, with the first name "Stanton" being more prominent and the last name "Glantz" following in a similar style.

Stanton A. Glantz, PhD
Professor and Director



REUTERS


EDITION: U.S.

SIGN IN | REGISTER

Search News & Quotes


[HOME](#) [BUSINESS](#) [MARKETS](#) [WORLD](#) [POLITICS](#) [TECH](#) [OPINION](#) [BREAKINGVIEWS](#) [MONEY](#) [LIFE](#) [PICTURES](#) [VIDEO](#)

BREAKING NEWS: U.S. manufacturing PMI falls to 53.2 in May versus 54.9 in April: ISM



\$2.00 OFF
Tide Detergent

[Load Coupon](#)



SAFEWAY

FDA calculates costs of lost enjoyment if e-cigarette rules prevent smoking

BY SHARON BEGLEY

NEW YORK Mon Jun 2, 2014 1:20am EDT

0 COMMENTS

Tweet 39

Share 10

Share this 8+1 2

Email

Print



A woman displays a package of E-cigarette, an electronic substitute in the form of a rod, slightly longer than a normal cigarette, in Bordeaux, southwestern France, on March 25, 2008.

Login or register

Latest from
My Wire

RELATED TOPICS

[U.S. »](#)[Health »](#)

(Reuters) - As U.S. health regulators consider what rules to impose on electronic cigarettes, in their tally of costs and benefits they have placed a value on the lost pleasure consumers may suffer if they used the products less or not at all.

The U.S. Food and Drug Administration says in a little-noticed document released alongside its proposals for regulations in April that the projected benefits of the new rules, which also apply to cigars, hookahs and other vapor products, should be cut by 70 percent to account for the deprivation consumers would suffer.

That means if the agency puts a value of \$100,000 on the longer and improved life that might be achieved by deterring someone from smoking, then it would cut that benefit assessment to \$30,000 because of the pleasure they lost.

The approach is regarded as radical among those who have done cost-benefit studies for regulators.

- 1 [Afghan president fumes at prisoner deal made behind his back: source](#)
- 2 [Pirate Bay co-founder arrested in Sweden to serve copyright violation sentence](#)
- 3 [Pro-Russia militia attack Ukraine border post](#)
- 4 [McDonald's murder in China sparks outrage](#)
- 5 [Malaysian teenager gang-raped by 38 men: media](#)

VIDEO

Some public health advocates warn it will help the [tobacco](#) industry argue that the cost of complying with restrictions on new nicotine products exceeds any benefit to the public, making it easier to scuttle those rules. They also fear it could be applied more broadly to regulation of products, such as food and alcoholic beverages, that is meant to protect public health.

"This makes it a lot harder to justify regulations on cost-benefit grounds," said Dr Stanton Glantz, a professor of medicine and a [tobacco](#) control expert at the University of California, San Francisco, who favors tough regulation of e-cigarettes and cigars. "It will undermine anything they try to do about anything."

Under a 1993 executive order signed by then President Bill Clinton, U.S. regulators are required to show the benefit of a regulation would exceed its costs. A proposal that would make a manufacturer spend \$1 billion to avert \$100 million in pollution costs, for instance, would likely not see the light of day.

But with novel tobacco and nicotine products, the FDA is putting its thumb on the cost-benefit scale in a way no other agency has before, according to current and former regulators and economists who specialize in such studies.

In its proposed rules, the FDA has already treaded lightly. It would ban the sale of e-cigarettes to anyone under 18, but would not restrict flavored products, online sales or [advertising](#).

The FDA used the same lost-pleasure analysis when it assessed the costs and benefits of requiring graphic warning labels on tobacco products - regulations the industry opposes and that have been blocked by a federal court. That was also little noticed outside a small group of public health advocates and other policy experts.

In response to questions from Reuters, an FDA spokeswoman said that even with the inclusion of the lost-pleasure factor, the benefits of its proposed e-cigarette regulations will still exceed the costs. She also said the tobacco industry did not pressure the agency to include it in the analysis, which was conducted by in-house economists with no input from political appointees.

As to whether using such a large lost-pleasure factor could weaken regulations, the spokeswoman said, "We will not prejudice any potential regulatory action."

FDA economists have previously hinted that the agency should apply the idea of lost enjoyment in areas beyond tobacco.

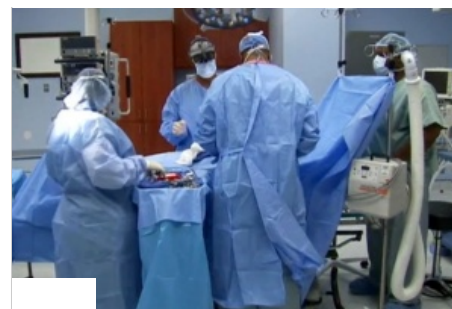
In a paper published online this year in the journal Health Economics, they argued that guilty pleasures like junk food and alcohol are so enjoyable the benefits of reducing their use through regulation should be discounted by up to 99 percent.

The authors were FDA economists Clark Nardinelli and Rosemarie Lavaty, as well as Elizabeth Ashley from the White House Office of Management and Budget.

The cost-benefit analysis of the FDA's e-cigarette proposal was written by the agency's economics staff, which Nardinelli heads. Nardinelli and Lavaty declined to comment.

Ashley referred a request for an interview to the OMB press office, which said in a statement that "the economics profession is still in the process of determining appropriate data and methods that would allow for estimation of consumer surplus in the context of tobacco."

E-cigarette makers are not focusing on FDA's lost-pleasure calculation, said Ray Story, chief executive of the Tobacco Vapor Electronic Cigarette Association, an industry group.



HEALTH REFORM WATCH:

Obamacare still a top GOP target

Robert Blendon of the Harvard School of Public Health says the Affordable Care Act's unpopularity in 12 key states will keep it a central issue in the 2014 elections. [Video](#)

[Economy may be hazardous to your health](#)

[Fewer deaths after health reform](#)

[Repeal cries fade as ACA enrollment jumps](#)

[Youth, Latinos crucial to health plan](#)

Follow Reuters

[Facebook](#)

[Twitter](#)

[RSS](#)

[YouTube](#)

RECOMMENDED VIDEO

[Polish prosecutor shoots himself](#)

[Oscar winner's death a suicide](#)

[Massive tumor removed from man's ...](#)

[Demolished building in France gets last laugh](#)

FINANCIAL COMMENTARIES AND GUIDES

■ [Download Our 2014 eBook to Learn How To Generate Yield on Investments](#) (Covestor)

■ [Use Our Tool to Get a Customized Investment Portfolio w/Shares ETFs](#). (ishares)

■ [Brazil Country Guide, brought to you by HSBC](#) (HSBC Global Connections)

■ [Explore top global trade routes, brought to you by HSBC](#) (HSBC)

■ [Don't buy a stock unless Zacks says it's a Strong Buy](#) (Zacks)

Content from sponsors

Lorillard, the biggest seller of e-cigarettes in the U.S. with its blu brand, did not return calls seeking comment. A spokesman for Altria, which owns Philip Morris USA, did not provide a comment from the company when contacted on Friday.

A NOVEL FORMULA

John Graham, who headed the White House Office of Information and Regulatory Affairs, which vets agencies' cost-benefit analyses, under President George W. Bush, said he could "not recall a specific instance" during his 2001-to-2006 tenure "where lost enjoyment played a significant analytical role."

Loss of pleasure had occasionally been used when analyzing proposals to ban products, Graham said, but was not treated as a deduction from benefits, as the FDA is doing.

The U.S. Environmental Protection Agency, for instance, has incorporated the concept to reflect that people value things like clean air in ways the market does not always capture, officials said.

The EPA has also used lost pleasure when calculating the costs of pesticide regulations to account for the possibility that the price of apples may rise if growers have to switch to using more expensive chemicals or lose more of their crop to pests. Consumers would lose some pleasure if they could afford to buy fewer apples.

In such cases, former officials said, the adjustment was relatively small, much less than FDA's 70 percent.

WILLING TO PAY MORE

To be sure, the pleasure factor is a well-established concept in economics, dating back half a century. Known as the "consumer surplus," it is the difference between what people pay for a product and the maximum they would be willing to pay.

It may seem counterintuitive that sellers would not charge the maximum tolerable price. But whatever price they pick, there are always consumers willing to pay more, explained economist Stan Veuger of the American Enterprise Institute, a conservative think tank in Washington, D.C.

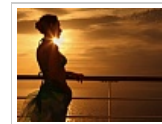
The additional amount is the consumer surplus, which economists interpret as the dollar value of the extra utility, or enjoyment, users get. Calculating the precise size of the surplus is not straightforward and economists often debate how large it is, Veuger said, but he added that the 70 percent used by the FDA "feels really, really difficult to justify."

More problematic, he and others argue, is applying the idea of consumer enjoyment to an addictive product like nicotine. Once a product becomes addictive, rational consumer choice goes out the window, said economist Ken Warner of the University of Michigan. The consumer surplus concept "should never be applied to an addictive product," he argued.

In addition, nearly three-quarters of smokers say they would like to quit. Their frustration at their inability to do so means many experience "incredible levels" of displeasure, said Warner, a leading cost-benefit scholar. He said that means the concept is not relevant to the vast majority of tobacco users.

The public has until July 9 to submit comments about the FDA's analysis, which the agency could change as a result.

Public health advocates are concerned about what will happen if agencies charged with protecting consumers also give considerable weight to the enjoyment people get from all kinds of things that have been a focus of regulation - from eating food containing trans fats



Ads by Adblade

The 10 most amazing cruises in the world are absurdly cheap.



The 20 Richest Hollywood Celebrities



The FDA has approved a solution for snoring & sleep apnea that does not require a cumbersome CPAP.

Work from anywhere.
Intuitive Legal Practice Management Software.

MyCase 30-Day Free Trial

to riding motorcycles without a helmet.

In the FDA document published online, the staff economists cite a 2002 paper by health economist Jonathan Gruber of MIT as a source for their 70 percent assessment. After Reuters called the analysis to his attention, Gruber said the fact that a majority of smokers pick up the habit as teenagers and become addicted before they are fully aware of the consequences, meant the FDA was wrong to invoke the "consumer surplus" concept.

"I think this is really a misapplication of my work," Gruber said.

(Reporting by Sharon Begley; Editing by [Michele Gershberg](#) and [Martin Howell](#))

FILED UNDER: [U.S.](#) [HEALTH](#)

Recommend 70 people recommend this. [Sign Up](#) to see what your friends recommend.

[Tweet this](#) [Link this](#) [Share this](#) [Digg this](#) [Email](#) [Print](#) [Reprints](#)

More From Reuters

- **Father blames government 'idiots' as California town mourns killings**
| 26 May
- **Oscar winner's death a suicide**
| 27 May
- **Malaysian teenager gang-raped by 38 men: media** | 29 May
- **U.S. Navy secretary defends new warship program**
| 28 May
- **Children raped, forced to eat faeces in Indian school - police**
| 29 May

Sponsored Financial Content



- **Don't buy a stock unless Zacks says it's a Strong Buy** *Zacks*
- **Your Core Portfolio: The Case for ETFs** *BlackRock Blog*
- **Take charge of your retirement planning and investment portfolio** *Covestor*
- **Germany Country Guide, brought to you by HSBC** *HSBC Global Connections*
- **Understand the future trade trends, brought to you by HSBC** *HSBC*

From The Web

Sponsored Content by Taboola



Millennials Are Drinking So Much Wine They're...
The Huffington Post



Warren Buffett Reveals How Anyone With \$40 ...
The Motley Fool



12 Cheap Cars That Look Extremely Expensive
MensMagazine.com



Must Have Appliances Being sold For Next To...
QuiBids



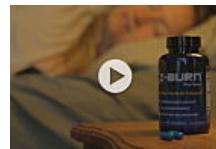
2014 Commercial Financing Trends
CIT



Vladimir Putin Called: He Wants His Warships
Fortune.com



2 Powerful Ingredients that Can Help You Lose Weight
Better Body Advice



How to lose weight in your sleep
Joyus

Add your comment

Post to Facebook

We welcome comments that advance the story through relevant opinion, anecdotes, links and data. If you see a comment that you believe is irrelevant or inappropriate, you can flag it to our editors by using the report abuse links. Views expressed in the comments do not represent those of Reuters. For more information on our comment policy, see <http://blogs.reuters.com/fulldisclosure/2010/09/27/toward-a-more-thoughtful-conversation-on-stories/>

Comments (0)

Be the first to comment on reuters.com.

Add yours using the box above.

SPONSORED TOPICS

Ad by Ask

- [Where To Stash My cash?](#)
- [Safest Cars on the Road](#)
- [How to Get Rid of Acne](#)
- [Which Mutual Fund For Me?](#)
- [Cars That Last 1 Million Miles?](#)
- [Know Your Employee Benefits](#)
- [Hilarious One-Liners](#)
- [Tax Saving Tactics](#)
- [How to Pick the Right Coffee](#)
- [Which Dental Plan To Bite?](#)

Back to top**Reuters.com**
[Business](#) | [Markets](#) | [World](#) | [Politics](#) | [Technology](#) | [Opinion](#) | [Money](#) | [Pictures](#) | [Videos](#) | [Site Index](#)
Legal
[Bankruptcy Law](#) | [California Legal](#) | [New York Legal](#) | [Securities Law](#)
Support & Contact
[Support](#) | [Corrections](#)
Account Information
[Register](#) | [Sign In](#)
Connect with Reuters
[Twitter](#) | [Facebook](#) | [LinkedIn](#) | [RSS](#) | [Podcast](#) | [New sletters](#) | [Mobile](#)
About
[Privacy Policy](#) | [Terms of Use](#) | [Advertise With Us](#) | [AdChoices](#) | [Copyright](#)

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals.

[Thomsonreuters.com](#)
[About Thomson Reuters](#)
[Investor Relations](#)
[Careers](#)
[Contact Us](#)

Our Flagship financial information platform incorporating Reuters Insider

An ultra-low latency infrastructure for electronic trading and data distribution

A connected approach to governance, risk and compliance

Our next generation legal research platform

Our global tax workstation

Thomson Reuters is the world's largest international multimedia news agency, providing investing news, world news, business news, technology news, headline news, small business news, news alerts, personal finance, stock market, and mutual funds information available on Reuters.com, video, mobile, and interactive television platforms. Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.

NYSE and AMEX quotes delayed by at least 20 minutes. Nasdaq delayed by at least 15 minutes. For a complete list of exchanges and delays, please [click here](#).