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Insight

The problem with procrastination

Why is getting up in the morning so hard?

You set your alarm at night for 5am to get up and go to the gym before heading to work. But when the alarm goes off getting up no longer seems like such a good idea and you hit snooze. You get notice of your bonus for the month and resolve to save it for a rainy day. But when the bonus arrives that holiday in Rarotonga just seems like too good a deal to pass up. Every day people break promises that they made to themselves. But why? And why should economists care?

A popular explanation among economists and behavioural psychologists is known as 'hyperbolic discounting'.[1] Essentially, it says that giving something up now seems much more costly to us than giving it up in the future. So giving up an hour's sleep does not seem like a huge sacrifice the night before but come the morning it is far too painful. Delaying spending the bonus does not seem hard a few weeks out, but it is very hard when you actually receive it.

Why does it matter?

The policy relevance of this phenomenon arises from the cost it imposes upon people. For example, smokers try to quit many times a year but rarely succeed. Heavy drinkers vow not to drink as much but end up drinking to excess anyway. Economists often think of addiction as a manifestation of hyperbolic discounting.[2] The key implication is that people would be better off if they were able to commit to decisions. Hence the proliferation of programmes and courses to help people quit smoking. People voluntarily sign up because they recognise that they need to force their 'future self' to quit. Sometimes private commitment mechanisms are not available and that is where government intervention can help people to keep their promises to themselves.

[1] G. Ainslie, *Picoeconomics: The strategic interaction of successive motivational states within the person* (Cambridge University Press Cambridge, 1992).

[2] J. Gruber and B. Koszegi, "Is Addiction 'Rational'? Theory and Evidence," *Quarterly Journal of Economics* 116, no. 4 (2001): 1261–1303.

A case study: alcohol

The current review of alcohol laws by the Law Commission has given rise to much debate over which costs are policy relevant. BERL released a report that measured the social cost of alcohol and included all possible costs.[1] A pair of economists critically reviewed the report and suggested that only the 'external' costs were relevant to policy.[2] Thinking about how hyperbolic discounting applies to the situation can shed some light on which costs are actually damaging to society and might warrant the government's consideration.

What are the costs of alcohol?

Costs can broadly be categorised as internal and external. External costs are the costs that a drinker imposes on others, while internal costs are those that drinkers impose on themselves. For an alcoholic the external costs include those borne by their family and the public health system. Internal costs include the damage to their self-esteem, loss of job prospects and the monetary costs of purchasing alcohol.

However, these are gross costs. Against those the external and internal benefits must be weighed. External benefits include the reduced cost to the health system from the alcoholic's shorter lifespan. The primary internal benefit is the enjoyment of drinking.

Traditionally, economists have assumed that only net external costs are policy relevant. That is because they assume that a rational person would only choose to drink if they derived a net benefit from drinking. Thus, the internal benefits are assumed to outweigh the internal costs. In that framework, the government's policy on alcohol is seen as a means to mitigate the net external costs of drinking.

What about 'internalities'?

The problem is that drinkers who keep trying to drink less but never do are probably not doing the best thing for themselves. That alcoholics often admit they would like to drink less in future just reinforces that notion. However, because they are unable to force themselves to drink less, they end up drinking far more than they want to. We call these effects internalities because the drinker is imposing a net cost on themselves through their inability to commit to future actions.

These costs are policy relevant because, if we impose policies to force down drinking, through higher taxes for example, most drinkers will feel better off. Their decreased drinking will bring them closer to their preferred level of consumption.

Is this just disguised paternalism?

It is important to remember that these conclusions do not arise from a framework in which the regulator tries to impose its own preferences on the drinker. Rather it involves the policy-maker

[1] Adrian Slack et al., *Costs of harmful alcohol and other drug use* (BERL, March 2009).

[2] Matt Burgess and Eric Crampton, *The Price of everything The Value of Nothing: A (Truly) External Review Of BERL's Study Of Harmful Alcohol and Drug Use*, Working paper (University of Canterbury, June 2009).

understanding why the drinker cannot achieve their preferred level of alcohol consumption and helping them to overcome the problem.

In a sense, the internality cost is a market failure. It is very difficult to know when there is an internality problem, because breaking your promise to yourself is usually observable only to you. There are ‘market’ solutions: making public vows or committing to long term gym memberships. But these commitment mechanisms are often ineffective because of the lack of information, which also bedevils efficient government intervention. For example, not all people need to have their retirement savings tied in to Kiwisaver until retirement. The government cannot know what an individual’s preferences or circumstances are, now or in future. Perhaps this is the main reason why internality taxes are not yet gaining widespread popularity in government circles.

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