Some years ago, an advertisement declared that Anacin contained “the pain reliever doctors recommend most.” The claim was not false. But it was misleading. After all, like Anacin, “Brand X,” which was also featured in the ad, was pure aspirin.

According to Nobel Prize winning economists George Akerlof and Robert Schiller, the Anacin ad should serve as a reminder that the free market system is flawed. They acknowledge that profit-making businesses offer consumers more choices, reduce costs, and improve quality. They maintain, however, that these businesses also have every incentive to exploit consumers’ emotions and lack of information.

“Phishing for Phools” is packed with examples — including subprime mortgages, pharmaceuticals, political campaigns, gym memberships, credit cards, cars and cranberry juice labels — of the pervasiveness of deception and manipulation in our economy and the price it exacts on individuals and the society at large. And the authors draw a conclusion that should be — but is not — self-evident. Caveat emptor, they demonstrate, is not enough. Consumers need protection; government can and must provide a counterweight to the excesses of free markets.

The authors use the rollout of the drug Vioxx to illustrate how vulnerable we are to the ingenuity and power of big corporations. Trials of Vioxx, they reveal, indicated that the drug alleviated gastrointestinal pain but that subjects experienced more heart attacks and other serious thromboembolic events than individuals who were given naproxen.

Despite these findings, Akerlof and Shiller write, Merck decided to forge ahead. The company organized lavish conferences at which experts in painkiller research praised the new “super aspirin;” 3,000 drug representatives were sent into the field, with instructions to assure doctors that claims about increased
cardiovascular mortality were not scientifically valid. In 2004, Vioxx sales reached $2.5 billion. By the end of the year, as the cases of myocardial infarction mounted, Merck removed the product from the market. David Graham, the associate director of the division of safety at the FDA, estimated that Vioxx had contributed to 88,000 – 139,000 heart attacks and more than 25,000 deaths.

Akerlof and Shiller applaud the progress that has been made in measuring the quality of goods, services and assets, disseminating information about them, and in establishing agencies to detect (and prohibit) the mislabeling of ingredients and false claims about them. In evaluating refrigerators, air conditioners and video games, they remind us, Consumer Reports benefits far more people than the 7.3 million individuals who purchase the magazine because it stimulates producers to earn positive ratings.

But they remain convinced that caveat emptor remains alive in American law and politics and that, in ways large and small, consumers remain vulnerable to emotional appeals and distortions of information. Most of all, they make a compelling case (reinforced by the recent revelations about the rigging of emissions standards in millions of Volkswagen cars) that the claim that “government is not the solution to our problem; government is the problem,” though it has a ring of truth and appeals to voters, is “itself a phish for phools.”