True or false? An investment banker who’s thrilled about his new twin-engine Cessna will be just as excited about it after discovering that his summer neighbor on Nantucket commutes there in a Gulfstream intercontinental jet.

If you answered “true,” you are in tune with the models that underlie most modern economic analysis. Those models assume that people care only about the absolute quantity and quality of the goods they consume. So the investment banker would still be happy with his twin-engine plane, no matter what his neighbor was flying. Yet in the real world, context matters. As the economist Richard Layard wrote, “In a poor country a man proves to his wife that he loves her by giving her a rose, but in a rich country he must give a dozen roses.”

Context shapes our evaluations more heavily for some goods than for others, an asymmetry that can distort our decisions. That simple fact is the key to understanding many otherwise puzzling real-world spending patterns. It also helps explain why we should support regulations that limit our freedom to act in specific ways.
Consider the familiar trade-off between wages and workplace safety. Because safety devices are expensive, additional safety means lower wages. Reducing risk to zero is impossible, so the practical question must always be this: How much safety is enough? Since Adam Smith’s day, classical economic theory has held that well-informed workers in competitive markets will navigate this trade-off sensibly. They will accept additional risk in return for higher pay only if the satisfaction resulting from their additional buying power is greater than the corresponding loss in satisfaction from reduced safety. Regulations that mandate higher safety levels make workers worse off by forcing them to buy safety they value at less than its cost.

That’s the theory, anyway.

But why, then, does virtually every country in the world regulate workplace safety? (Even the poorest countries have at least rudimentary safety requirements.) Classical economic theory doesn’t have a good answer. It either portrays such regulations as anomalous, or else needed only because workers are uninformed or markets aren’t competitive enough. Yet we regulate many safety risks that workers clearly understand, and most safety regulations have their greatest impact in precisely those markets that most closely approximate the competitive ideal.

The mystery is resolved when we remember that context shapes evaluations of safety less heavily than it does for other goods — say, housing. In that case, even well-informed workers in perfectly competitive markets will tend to buy too little safety on their own. The forces that underlie this distortion are captured in a pair of thought experiments involving choices between two environments.

In World A, your family lives in a 4,000-square-foot house, while everyone else lives in 6,000-square-foot houses. In World B, you live in a 3,000-square-foot house, while everyone else has to make do with just 2,500 square feet. If conditions were otherwise identical and would forever remain, which would you choose?

Classical economics, which says that only absolute values matter, portrays World A as the correct choice, because you would have a larger house there. But when researchers confront real people with
variations on this hypothetical decision, most of them choose B. Once houses expand past a certain size, it seems, relative advantage trumps absolute size.

Now suppose you need to choose between levels of workplace safety. In World A, you would have a two-in-100,000 chance of dying on the job this year, while everyone else has a one-in-100,000 chance. In World B, you would have a four-in-100,000 chance of dying, versus a six-in-100,000 chance for everyone else.

Death is sobering. Again, the choice is between absolute and relative advantage, but this time almost everyone chooses World A. For safety, it seems, choice patterns affirm the classical theory’s assumption that only absolute quantities matter.

Here is where it gets tricky: Relative advantage matters more for housing than for safety, so markets won’t sustain an optimal trade-off between the two. Suppose a worker accepts a slightly riskier job for slightly higher pay. The extra money buys a house whose size, in absolute terms, isn’t enough to compensate for the reduction in safety. But that house is larger in relative terms, too, and that makes the difference. Now the exchange is attractive on balance.

Similar incentives apply to everyone else, though, so when all workers sacrifice safety in the hope of buying a relatively larger house, no one moves forward. They are like spectators in a sporting event: All stand to get a better view, yet no one sees any better than before.

The problem isn’t that workers are ill-informed, or that markets are insufficiently competitive. Even with full knowledge, there just isn’t much that workers can do to change matters on their own.

Consider safety regulations in hockey. Helmets are required, even in the National Hockey League but that’s a fairly recent development. Many players had believed that they could see and hear better without them. But when everyone skated without helmets, the relative advantage disappeared, resulting in gratuitous risk of injury to all players. In 1979, the N.H.L. required all newly hired players to wear helmets, but veterans were exempted. Some continued to skate without a helmet until 1997, believing that it gave them an edge — but
today’s players seem to see futility in sacrificing safety for an unsustainable relative advantage.

We all value freedom. But while classical economics encourages the complaint that safety regulations violate workers’ freedom, that complaint is misguided. It is little different from complaining that helmet rules violate athletes’ freedom. Of course they do — but with athletes as with workers, that’s precisely what people wanted.

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