

## Praise for the 1985 edition of *The Economist's View of the World*

“This is a marvelous book. Reading it, an economist is taken aback that a person outside the discipline could understand it so thoroughly; and then, precisely because he is not of economics, offer new insights into its applicability, and provide a biting critique of its limitations.”

*John Brandl, Founding Dean of the Hubert Humphrey  
Institute of Public Affairs, University of Minnesota*

“As a hardened economist, I am saddened by the manifest incompetence and harmfulness of most surveys of the subject done by people in other social sciences. Thus, I read your book without high hopes, and was really delighted to find that it not only embodied a lot of work on and understanding of economics, but was a most useful and constructive book as well. Congratulations on it.”

*Mancur Olson, Professor of Economics,  
University of Maryland*

“Having just finished reading your book, *The Economist's View of the World*, I wanted to tell you how marvelous I think it is. The whole book, I think, should be required reading in our Woodrow Wilson School, as I plan to urge on the relevant parties.”

*Alan S. Blinder, Professor of Economics,  
Princeton University*

“I still think it's one of the top ten economics books of the last 50 years.”

*David Henderson, Professor of Economics at the Naval  
Postgraduate School and editor of The Concise  
Encyclopedia of Economics*

“This is a wise and judicious book. Rhoads practices what he preaches; he cares deeply for reasoning about and discussing values. His own style is a model of generosity and stylish academic argument: clear and forceful without being polemical or deprecatory.”

*Steven Kelman, Weatherhead Professor of Public  
Management at the John F. Kennedy School  
of Government, Harvard University*

“I think this is a *very* good book. The assessment of economics strikes me as altogether balanced and fair. After what the author says in Parts I and II about the good sense and rationality the economist brings to public policy, cutting through all sorts of sacred cows and sentimentalities, one begins to wonder what he’s going to find to say *against* the economist’s perspective. But he does not disappoint in Part III.”

*Dennis Wrong, Professor of Sociology,  
New York University*

“Your book, *The Economist’s View of the World*, is one of the very best books I have ever read.”

*Amitai Etzioni, University Professor,  
George Washington University*

“I think *The Economist’s View of the World* is a great book. I think it’s extremely important to see the economist’s perspective, with its strengths and limitations, in a single place.”

*Andrew Gelman, Professor of Statistics and Political Science,  
Columbia University*

## The Economist's View of the World

*35th Anniversary Edition*

Released in 1985, Steven E. Rhoads's classic was considered by many to be among the best introductions to the economic way of thinking and its application to public policy. Now, this anniversary edition has been updated and revised to account for developments in the discipline, as well as political and economic developments – from the greater interest in redistributing income and the ascendancy of behaviorism to the Trump presidency.

Beginning with opportunity cost, marginalism, and economic incentives, Rhoads then explains why mainstream economists – even those well to the left, such as Paul Krugman – still value free markets. The book ends with a critique of economic methods that adopt a strict neutrality between tastes and assume that selfishness rules our behavior. The author's critique of economics is its unbalanced emphasis on narrow self-interest as controlling motive and the route to happiness. He explains the growing interest in virtue ethics among philosophers and positive psychologists' findings that happiness is far more dependent on friends and family than on income or wealth.

This thought-provoking tour of the economist's mind is a must-read book for our times, providing a clear, lively, non-technical insight into how economists think and why they shouldn't be ignored.

**Steven E. Rhoads** is Professor Emeritus in Politics at the University of Virginia. He received his AB in history from Princeton University in 1961. Steve then spent time in the US Navy, and at the US Bureau of the Budget as the Secretary of the Director's Review. At Cornell University he studied economics, American politics, and the history of political philosophy, receiving his PhD in government in 1973. Steve and his wife Peggy live just outside Charlottesville, Virginia.

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# The Economist's View of the World

And the Quest for Well-Being

*35th Anniversary Edition*

**Steven E. Rhoads**

*University of Virginia*



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**FOR MARGARET CAMPBELL RHOADS  
MY  
“PEGGY SUE”  
WHO BROUGHT THE SUN BACK OUT**

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## Preface

In 1975 the University of Virginia promoted me to associate professor with tenure. I think the principal reason was that my department chair needed a graduate student advisor. Apparently, no one else was right for the job, and he believed it would be embarrassing to have an untenured assistant professor in the post. So, wheels were greased for my promotion. At the time, my only publication was a monograph based on my dissertation, and my teaching was mediocre: pretty good for smaller classes and pretty bad in large lecture classes. Few college deans would think this record worthy of tenure. Ten years later my teaching had improved considerably, but my publishing record was still scant; I had added only an edited volume at a commercial press.

My mood was pretty good, though. I had just finished an ambitious book manuscript on how economists think. And one of the best presses in the world was about to publish it. My editor, Colin Day, was enthusiastic and thought it would sell reasonably well in the academic market. Some course adoptions seemed possible. What neither of us anticipated was the book's wide appeal outside the academic market, including with general readers.

The reviews were very good where they appeared, in academic journals and in a few journals of political opinion. The first printing was a couple thousand copies – pretty standard back then. The book sold quickly, and Cambridge went back to press numerous times over the years. It just kept selling. In 2005 a graduate student reviewing on Amazon said the book had been assigned in his public administration

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seminar. It was gratifying but a little hard to believe that someone was assigning a 20-year-old book about economics and public policy in a graduate course. Sure, there were lots of anecdotes and examples in the book, but they were all at least 20 years old!

Meanwhile, the book had found a sizable readership in Europe and Asia. Tens of thousands of copies were eventually sold, putting the book in the top 1 percent for all books published by Cambridge since the Second World War. There were also foreign-language sales, and *The China Times* (Taiwan) selected the Chinese translation as one of the best books of the year (1991).

I always knew that, when retired, I would want to write a revised edition, since economic issues and economics itself have changed significantly. In 1985 most economists believed that “a rising tide lifts all boats.” In the years since, inequality in both income and wealth has increased dramatically. Moreover, 15 percent of prime-age men in 2020 are not even looking for work. In 1985 the economists’ belief that satisfying consumers’ preferences for goods, services, and leisure leads to happiness went pretty much unchallenged. Now the challenges come from philosophers and psychologists, among others.

Still, the core concepts of economics have endured. In 1985 economists showed great appreciation for markets, emphasized balance between objectives rather than ranking them, considered opportunity costs before making policy, and used the externality concept (effects on third parties) when thinking about an agenda for government. All are as sensible now as then, and I am confident that they will be important to the economist’s worldview many decades from now.

I can often generalize about how economists think because ideology is less important in the discipline than one might suspect. The Brookings Institution and the American Enterprise Institute (AEI) are two of the oldest think tanks in Washington. Taken as a whole, Brookings leans left while AEI leans right. But their work in economics is not so different. For most of the first decade of this century an AEI–Brookings Joint Center for Regulatory Affairs was active. More recently an AEI–Brookings Working Group on Poverty and Opportunity put out a joint report (*Opportunity, Responsibility, and Security*, 2016). Also relevant in this regard: Ted Gayer went from deputy assistant secretary for economic affairs at Treasury in the George W. Bush administration

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to co-director and later director of economic studies at the Brookings Institution!

In this book I present the core of the economist's way of thinking, which affects us all and explains why economics remains the most politically influential of the social sciences.

## ACKNOWLEDGMENTS TO THE FIRST EDITION

If this book has any virtues, their genesis was at the Cornell University of the 1960s. As a master's candidate in public administration, I was drawn to Cornell's economics department. There, from Alfred Kahn and Robert Kilpatrick, I learned that the fields of regulatory economics and public finance addressed issues of policy substance in a disciplined and illuminating way.

Many years later, at a chance meeting, Kahn foolishly agreed to look at a manuscript I was working on. When I later deposited 550 pages on his doorstep, he kept any groans inaudible, and, in the midst of a schedule busier than any I will ever know, he produced 22 single-spaced pages of detailed, exceedingly helpful comments. Those who followed Fred Kahn's career in President Carter's administration will not be surprised to learn that at Cornell he was famous for his buoyant energy, wit, and intelligence. They may know less than I do, however, of his astonishingly generous nature.

Toward the end of my study of economics at Cornell, I had the good fortune to encounter another legendary campus figure, Allan Bloom. It was later my privilege to study with this peerless teacher when he was finishing his work on Plato's *Republic* and beginning his study of Rousseau's *Emile*. Like most other graduates of what today pass for good liberal arts colleges, I had never read these, or, indeed, almost any other truly important book. From Bloom I learned of views of the world richer than those of economists. My book would be a far



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better one if I knew even a few of the great books of political philosophy half as well as he.

After receiving my master's degree, I worked under Charles Schultze at the US Bureau of the Budget. There I was able to see the economist's view of the world as it first began to gain a real foothold in government through the studies that grew out of the old Planning, Programming, and Budgeting System.

When I returned to Cornell to obtain my PhD in government, I was fortunate to be able to work with Richard Fenno, Allan Sindler, and Walter Berns. My efforts here to let economists speak in their own words whenever possible are a tribute to Fenno's more skillful use of this method to bring alive the life of the Congress. In their very different ways, Sindler and Berns provided me with important models of how one can find in political science a source for thoughtful analysis of the issues of American politics. Sindler chaired my dissertation committee and has helped in many ways in succeeding years.

A manuscript that attempts to cover as much as this one does would be riddled with errors were it not for the kindness of readers more expert than I about various parts of it. The entire first draft of the manuscript, or substantial portions thereof, was read by Edward Banfield, Lawrence Brown, Donna Hawthorne Carfagno, James Ceaser, Ward Elliott, Joseph Goldberg, William Johnson, Alfred Kahn, Carnes Lord, Harvey Mansfield Jr., Edgar Olsen, James Pontuso, Abram Shulsky, Allan Sindler, Aaron Wildavsky, Leland Yeager, and several anonymous readers. Although I think my readers' comments have made this version much improved, they are of course blameless if I have made things worse instead.

The graduate students in the public administration classes of 1983 and 1984 were involuntary, but extraordinarily helpful, readers. I extend thanks to them and to my wife, Diana, the only person who has had to read every page of every draft. She is a superb editor, but that is the least of her virtues.

Cathy Dooley, Jim Crane, and Roxanne White were the last of a long line of research assistants who performed important but unglamorous work with skill and good cheer. Barbara McCauley did her usual superb typing job. The Institute for Educational Affairs, the Earhart Foundation, and the Center for Advanced Studies at the University of Virginia provided generous fellowship

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support that made possible a full year for writing. The university's small grants committee and the Department of Government and Foreign Affairs provided funds to type and reproduce the manuscript. And, finally, Colin Day has been a gifted and helpful editor from the very first. It has been a pleasure to work with him, my excellent copy-editor, Mary Byers, and the rest of the staff at Cambridge University Press.

## ACKNOWLEDGMENTS

My friend and colleague in economics, Bill Johnson, has put up with my pestering questions about economics for over 40 years! He has a remarkable knowledge of what is going on in his discipline. Bill read the entire manuscript and offered a powerful and helpful critique.

Thanks also to another friend and colleague in economics, Ed Olsen, for sharing his extensive knowledge of the policy analytic community, and, in particular, his research on housing, which finds its way into my equity chapter.

N. Gregory Mankiw, Deirdre McCloskey, Paul Dragos Aligica, Tyler Cowen, and John Merrifield gave me extensive comments on the whole manuscript. I am most grateful to them.

I'm lucky that my career was at the University of Virginia, which has undergraduate honors students who could have gone anywhere. Better yet, I was able to convince some of the best to be my research assistants. In the last two years, when most of the writing and focused research was done, three have been particularly notable. Brooke Henderson used her facility with data and knowledge of applied economics in many ways but, of particular note, she wrote the first draft of most of the new chapter on economic incentives. Connor Dixon gave special help by becoming truly expert on the founders' views on property rights and the distribution of income. He showed his range by also becoming an expert on the literature on economists and selfishness.

Rebecca Harrington, a major in physics and mathematical economics, showed her versatility in a host of ways. She organized and annotated dozens of EconTalk transcripts as well as several feet of hard

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copy articles. She rewrote some passages to reflect changes suggested by expert readers. She worked with me until the wee hours during a crunch when I needed to quickly pull together a revised manuscript for a potential publisher. An extremely talented woman, her work on tedious tasks was always accompanied by plenty of energy, a can-do spirit, and a big smile.

At an earlier stage, before taking off for his Rhodes Scholarship, Russell Bogue took the lead in thoroughly updating the old version of my chapter supporting representation and deliberation. Micaela Connery's master's thesis helped convince me of the importance of voluntarism and of President George H. W. Bush's important initiative in that regard. Wendy Morrison helped with research on opportunity cost and infrastructure; Ben Gustafson with equity and the energy efficiency of home products.

Anne Marie Helm, Bradley Katcher, Alexander Mezick, Mary Hickok, and Andy Boyer helped on various assignments early in my research. Thanks go to Lee Coppock, Ken Elzinga, Adele Morris, Andy Rettenmaier, Jay Shimshack, and Todd Zywicki for their help with sources.

The R Street Institute, and in particular Kevin Kosar, provided excellent strategic advice and administrative support.

The first edition of this book came into being after years of effort and some neglect of my family. Along the way I could rely on the nurturing and editing of my late wife, Diana Akers Rhoads, and the usual good cheer of our three active and interesting sons, Chris, Nick, and John.

Jim Ceaser and Blaire French have been good friends and supporters of this project over many decades. Conversations with two of my old students and now old friends, Steve Teles and Steve Camarota, brought sound advice and support. The same can be said of my three amigos: Marc Plattner, Gary Schmitt, and Abe Shulsky.

Anna Sutherland was an excellent personal editor of the early rough draft chapters before her very untimely death. Richard Starr took over the skillful editing of most of the draft, but his ability to find elusive articles and rewrite clunky passages took his portfolio well beyond normal editing. I am most grateful to him.

Robert Dreesen, my acquisition editor, has spearheaded the Cambridge efforts to make my book successful with the general reader as well as academics. His suggestions for tweaking some of the early

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writing were superb. I have relied on his accessibility, wide publishing experience, and good judgment throughout the publishing process.

In the courtship of my wife Peggy, she repeatedly disproved the theory of diminishing marginal utility. It turns out that the second and third and fourth steak per month do bring successively less pleasure, but with Peggy Sunshine the second, third, and fourth dates per month keep getting better and better. While doing her own writing, she also offered wise strategic advice about publishing this book.

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