CONTENTS

Preface page xiii
Acknowledgments to the First Edition xvi
Acknowledgments xix

Introduction 1

Part I Useful Concepts 7

1 Opportunity Cost 9
   Engineers versus Economists 12
   Are Opportunity Costs Relevant for Lifesaving Programs? 17
   Opportunity Costs When Preserving the Natural Environment 20
   Further Reflections 26

2 Marginalism 28
   Human Needs and Marginalism 30
   Health Needs and the Demand for Medical Care 31
   Setting Priorities and Marginalism 36
   The Costs of Marginalism 39
   Further Reflections 41

3 Economic Incentives (with Brooke Henderson) 43
   Economic Incentives and the Environment 44
      Weaknesses in the Current Regulatory System 44
      The Promising Power of Incentives 45
      Reasons for the Slow Adoption of Incentive-Based Approaches 50
      Political Feasibility of a Carbon Tax 51
   Flood Control 56
   Congestion 61
   Further Reflections 62

Part II Government and Markets, Efficiency and Equity 65

4 Government and the Economy 67
   Consumer Sovereignty, Welfare Economics, and Utilitarianism 68
   Economic Efficiency 69
# Table of Contents

Free Markets and Flexible Prices  70
Market Failure  73
Government Failure  74
Market and Government Allocation: Comparing Efficiency  77
Privatization  78
Systemic Agency Inefficiency  79
Wasting Money  80
The Troublesome Nature of National Industrial Policies  82
Theoretical Reasons for Industrial Policy Failures  88
What Are Economists Worried about?  91
- Weaker Economic Growth and Lousy Statistics that Make It Seem Worse than It Is  91
- Misinformed Criticism of Some Market Characteristics  93
Microeconomic Policies that Need Attention  96
- Licensing of Occupations and Overregulation of Commercial Life  96
- Stronger Antitrust Policies?  102
Economists Warn against the Side Effects of Government Forcing Businesses to Be Kinder to Labor  104
Further Reflections  109

5 Economists and Equity  114
Pareto-Optimal Redistribution  116
How Equal Is the Distribution of Income and Wealth and How Much Has It Changed through Time?  117
Poverty and Mobility at the Top and Bottom  119
Redistribution  124
More Growth or More Redistribution?  128
Just Deserts  131
What Would the Founders Say?  136
Who Benefits and Who Loses  142
Equity and the Price Mechanism  146

6 Externalities and the Government Agenda  151
Why Externalities May Not Justify Government Intervention  151
Externalities and the Desirable Scope of Government  153
Externalities and Federalism  160
Further Reflections  166
Addendum: Cost–Benefit Analysis  167
New Controversies in Cost–Benefit Analysis  171

Part III The Limits of Economics  175

7 The Economist’s Consumer and Individual Well-Being  177
Consumer Choice and Consumer Well-Being  177
## Contents

- Changing Tastes and Preferences  181
- Economists and the Selfishness Assumption  188
- Avoiding Controversy through “Scientific” Neutrality  191
- Higher Tastes  195
- The Route to Happiness  202
- Further Reflections  213

8  Representatives, Deliberation, and Political Leadership (with Russell Bogue)  221
- Economists’ Views  221
- The Political Function of Citizens  224
- Representatives, Deliberation, and Political Leadership  228
- Further Reflections  232

9  Conclusion  242
- Final Thoughts  252

Notes  255
Index  304