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IN MEMORIAM

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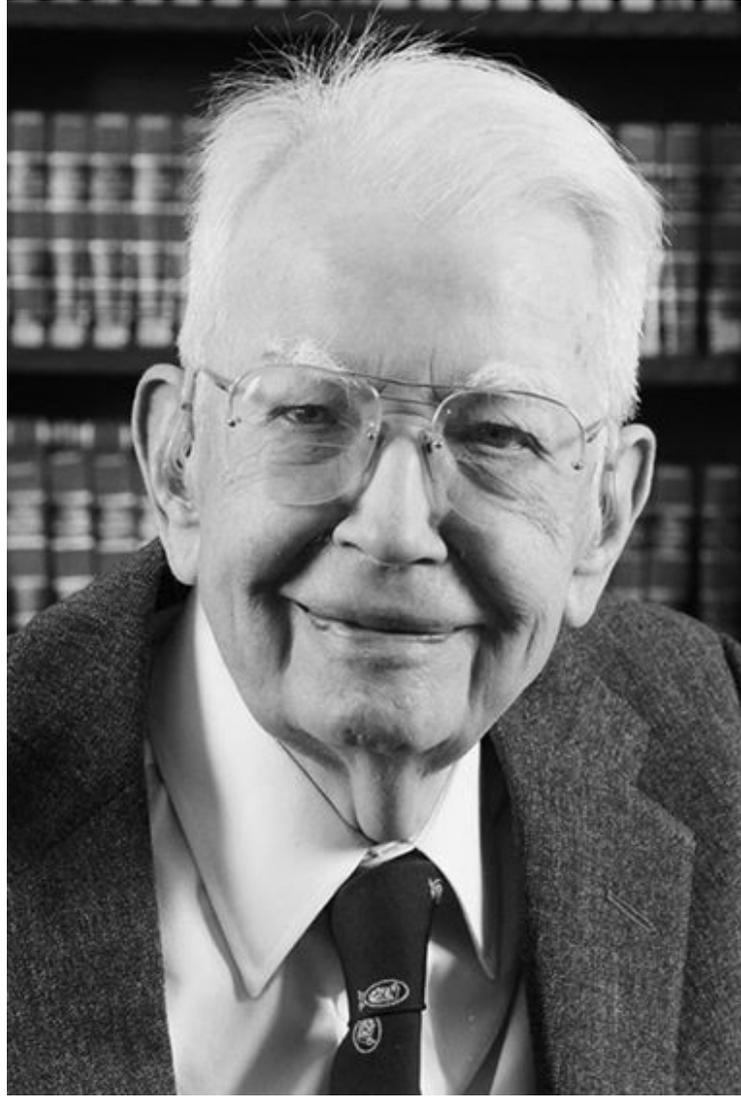
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*In Memoriam*



# The Ideological Migration of the Economics Laureates: Introduction and Overview

Daniel B. Klein<sup>1</sup>

[LINK TO ABSTRACT](#)

The present article is part of a 465-page project that fills [the September 2013 issue of \*Econ Journal Watch\*](#). The project is an investigation of the 71 individuals who, from 1969 through 2012, were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. For each such Nobel laureate, we investigate whether he or she changed in ideological views, outlook, and character, particularly as those are expressed in political and policy judgments. Ninety percent of the pages of this project are filled by the ideological profiles of the 71 laureates.

In this article, I consider ideological change particularly with respect to classical liberal sensibilities. The basic idea of the investigation is to gauge whether the laureate, over the course of his or her adult years, either (1) grew more classical liberal, (2) grew less classical liberal, or (3) neither grew more nor grew less classical liberal. Most of the laureates have not been found to have either grown more or less classical liberal. Among the others who have been found to change in that respect, a greater number grew more classical liberal than grew less classical liberal.

I speak of ideological change as *migration*, a geographic metaphor for policy/political views. But I talk “migration” in a narrowed, qualified way: Here, someone I deem not to have migrated means only that I do not deem he or she to have either grown more classical liberal or grown less classical liberal. The views of one who has not migrated with respect to classical liberalism may have changed in other, orthogonal ways.<sup>2</sup>

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1. George Mason University, Fairfax, VA 22030.

2. Likewise, if some of a person's views became more classical liberal, and some less, with the overall result being a ‘wash’ in terms of classical liberalism, I suppose such person, too, would not be deemed a migrant, at least for the purposes of this article. But I do not see any of the laureates to be such a case.

Figure 1 offers a report of ideological migrations among the economics laureates. Fifty of the 71 laureates are not listed in Figure 1. Such absence represents only that I do not know the individual to have migrated during adulthood; such absence does not represent a firm opinion that the individual (e.g., Leonid Kantorovich) did not migrate. For a few, such as Robert Lucas, Merton Miller, Lawrence Klein, Arthur Lewis, and Edward Prescott, I have a hunch that they grew at least a bit more classical liberal, but the meagerness of my knowledge, particularly about their earlier years, keeps me from including them in the figure. I do not have any particular hunches for additional migrants in the other direction—if I had to suggest the most likely, it would be Maurice Allais. Overall, the profiles perhaps suggest that the proportion of our ignorance to our knowledge is not so high as to undercut whatever meaning might be found in the entire set of 71 laureates.

**Figure 1. Ideological migrations of economics laureates who grew either more or less classical liberal**

Grew more classical liberal	A lot more	James Buchanan Ronald Coase Robert Fogel Friedrich Hayek Franco Modigliani Douglass North Vernon Smith
	More, but not a lot	Kenneth Arrow James Mirrlees Theodore Schultz Amartya Sen
	A bit more	Milton Friedman Eric Maskin Edmund Phelps Thomas Sargent George Stigler
Grew less classical liberal	A lot less	Ragnar Frisch Bertil Ohlin
	Less, but not a lot	Peter Diamond
	A bit less	John Hicks Paul Krugman

My first goal here is to explain what I mean by Figure 1. Whether the results shown there hold any significance is perhaps rather doubtful, and is for the reader to decide. I will touch upon some of the many points to consider. For those who are fascinated by the individual and how he (or she) makes sense of things, how he reckons what is most important, who he most admires and emulates, how he develops his primary duties, and how he makes his way in the world—and how all that relates to his ideological character and outlook—the profiles might be of interest, even if read entirely apart from the problem-ridden, perhaps silly formulations imposed here.

Here I write as the project's principal investigator and chief author. Of the 71 profiles, I am sole author of five and coauthor (always with Ryan Daza and often also Hannah Mead) of 58.

Authors of the eight other profiles are as follows: Niclas Berggren (writing the profiles of James M. Buchanan and Bertil Ohlin), Jason Briggeman (Paul Krugman and Amartya Sen), Benny Carlson (Gunnar Myrdal), J. Daniel Hammond (Milton Friedman), E. C. Pasour (Theodore W. Schultz), and Arild Sæther and Ib E. Eriksen (Ragnar Frisch). Viviana Di Giovinazzo has provided a selection and translation of material by Franco Modigliani. Finally, David Colander serves as Overseeing Referee and independent commentator, a role described below.

## Some concepts and questions

**“Classical liberal”:** The *Stanford Encyclopedia of Philosophy* contains an entry on “Liberalism” by Gerald Gaus and Shane D. Courtland (2011). In reproducing the following passage I suppress the citations contained within it:

For classical liberals—sometimes called the ‘old’ liberalism—liberty and private property are intimately related. *From the eighteenth century right up to today*, classical liberals have insisted that an economic system based on private property is uniquely consistent with individual liberty, allowing each to live her life—including employing her labor and her capital—as she sees fit. Indeed, classical liberals and libertarians have often asserted that in some way liberty and property are really the same thing; it has been argued, for example, that all rights, including liberty rights, are forms of property; others have maintained that property is itself a form of freedom. A market order based on private property is thus seen as an *embodiment* of freedom. Unless people are free to make contracts and to sell their labour, or unless they are free to save their incomes and then invest them as they see fit, or unless they are free to run enterprises when they have obtained the capital, they are not really free. (Gaus and Courtland 2011; first italics added)

Similar characterizations of classical liberalism are readily available, for example, in *The New Palgrave Dictionary of Economics* (Dahrendorf 2008). For a good overview, see Friedrich Hayek's encyclopedia entry “Liberalism” (Hayek 1978).

By the term *classical liberal*, I mean maintaining a presumption of liberty. By “liberty,” I mean others, including the government, not messing with one's stuff. By “one's stuff,” I mean one's person and property, understood in a way that

implies freedom of voluntary association and contract. Liberty is the flipside of commutative justice, “abstaining from what is another’s,” as put by Adam Smith (1976/1790, 269). These formulations presuppose configurations of ownership, and the configurations presupposed here are ones that are congruent with the thought of David Hume, Adam Smith, and other liberals of the eighteenth and nineteenth centuries. Among the economics laureates, classical liberalism is particularly well represented by Milton Friedman and Friedrich Hayek, both of whom described themselves as liberal (e.g., see Friedman 1962, 5-6, on “the rightful and proper label,” and Hayek 1960).<sup>3</sup>

**“Growing more/growing less classical liberal”:** The migrations reported in Figure 1 are about growing more or growing less classical liberal: They do not necessarily mean moving into or moving out of the ideological territory designated ‘Classical Liberalism.’ Franco Modigliani, for example, never resided in that territory, so to speak. But, by moving from fascist and socialist to a more mainstream social-democratic outlook, Modigliani moved in directions that brought him closer to that territory, closer than he had been; he grew *more* classical liberal. The point is made also by the inverse example of Ragnar Frisch. Frisch, too, never resided in ‘Classical Liberalism,’ but he moved further away from that territory; he grew less classical liberal.

**What of original structuring of ideological sensibilities?** We are especially interested in views undergoing restructuring (along the lines of more or less classical liberal, that is). For example, although we are quite sure that Gary Becker now has views that he did not have after finishing college at Princeton (by which time he had outgrown what was apparently an only superficial inclination toward socialism), for example, strongly favoring drug liberalization, we have little information to the effect that he had had contrary views, that he underwent a change or restructuring in his thinking. In this respect our idiom of “growing more classical liberal” is misleading, for in an important sense Becker did grow more classical liberal. But, so far as I can tell, the development was primarily that of going from not really having considered views to having classical liberal views; it was a development of structuring, not restructuring. Such a development is not here regarded as migration. The matter relates to how old the laureate has to be for his story to count as migration.

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3. I use “classical liberal” rather than *libertarian* in part to get away from the image that some have projected onto “libertarian,” an image that entails stark distinctions, all-or-nothing modes of reasoning, insufficient attention to problems in formulating liberty as a principle, and brittle claims for such a principle. Classical liberalism maintains a *presumption* of liberty—it admits of exceptions—and it is comfortable anchoring discussion in the status quo, being oriented more toward *reform* than toward any notion of an ideal or just arrangement.

**When does adulthood start?** The profiles certainly take an interest in available information about the laureate’s earliest, even teenage, views, as well as in the political inclinations of the laureate’s family and upbringing. But to make it into Figure 1, at least one of several conditions must hold. One condition is that the earlier views, which subsequently underwent change, were those of someone who was at least 22 years old. Another condition is that views were expressed in print, as were those of Franco Modigliani in his late teenage years. Another is that the individual, in later years, spoke in a definite, significant way of having undergone an experience of rethinking of his views—the way that Hayek, Ronald Coase, and James Buchanan did. I exclude from Figure 1 some individuals who seem to have been inclined one way in college, but not with great commitment, and who shortly thereafter, perhaps in graduate school, moved away from their college views. Robert Lucas, Edward Prescott, and Gary Becker are examples of such cases *not* included in Figure 1.

## Stepping back

My character and outlook is classical liberal (or, pragmatic libertarian), and in that regard I have changed little since my college years, though I have grown particularly enamored of Adam Smith. I am an example of ideological persistence.

My ambition to study the ideological migration of intellectuals goes back perhaps 25 years. With collaborators, I acted on the ambition—with the result that our hard drives now store quite extensive unpublished material. (Sigh.) The motivation was to provide a form of meta-evidence for the wisdom of classical liberalism. By “meta-evidence” I mean evidence consisting of patterns (in this case, longitudinal patterns)<sup>4</sup> in how people estimate and judge evidence about policy/political issues. All along I have been aware of some of the problems in purporting such meta-evidence, but I had thought that the problems were not too damaging. Over the years, however, the problems I had recognized, as well as others, loomed larger in my mind. Now, for me, the meta-evidence motivation is only a shadow of its initial self. Meanwhile, other motivations can perhaps justify the present project. I share this personal history as a way to introduce what follows: An elaboration of the initial meta-evidence motivation, followed by a discussion of the many problems with the meta-evidence motivation, followed by other motivations for

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4. Another project in meta-evidence for the wisdom of classical liberalism is discussed in Klein (2012). Also, though not presented as such, the work of Bryan Caplan (2007, ch. 3) on how the views of economists and of the more “Enlightened Public” differ from the views of others can be read as another project in meta-evidence for the wisdom of classical liberalism.

the project. I then conclude with further description of how the project was carried out.

## **The initial motivation for the project: Meta-evidence for the wisdom of classical liberalism**

John Stuart Mill expounds utilitarianism in his 1863 book *Utilitarianism*, and he sees the need to put certain preferences (and their fulfillment, producing corresponding pleasures) above others. He writes:

Of two pleasures, if there be one to which all or almost all who have experience of both give a decided preference, irrespective of any feeling of moral obligation to prefer it, that is the more desirable pleasure. If one of the two is, by those who are competently acquainted with both, placed so far above the other that they prefer it, even though knowing it to be attended with a greater amount of discontent, and would not resign it for any quantity of the other pleasure which their nature is capable of, we are justified in ascribing to the preferred enjoyment a superiority in quality, so far outweighing quantity as to render it, in comparison, of small account. (Mill 1863)<sup>5</sup>

If we think of an individual choosing policy or political views (or beliefs or judgments), and then we invoke some notion of demonstrated preference, we can see how Mill's argument about preference superiority lends itself to an argument about policy-views superiority (although I would advise dropping the condition: "irrespective of any feeling of moral obligation to prefer it"). That is, if, among those who are "competently acquainted" with two contrary positions on an issue, one of the positions is consistently chosen, then that is the superior position.

Even more than is the case with preferences in music, film, or food, preferences in politics tend to get locked in; after the age of 25 or 30 they tend to persist throughout the life span. As Thomas Jefferson put it, "few, in their after-years, have occasion to revise their college opinions" (1984/1814, 1341). Moreover, they tend to become more firmly locked in as the years pass, which may be reason to regard a restructuring occurring at age 35 as more significant than one occurring at age 22. Accordingly, the observer may wish to discount somewhat some of the migrations reported in Figure 1, including those of Hayek, Coase, Buchanan, and Bertil Ohlin, each having experienced his principal movement before age 30.

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5. Mill also states the idea, more briefly, in his diary entry of March 23, 1854 (Mill 1988/1910, 663).

## IDEOLOGICAL MIGRATION OF THE ECONOMICS LAUREATES

Much scholarly research shows that individuals rarely undergo fundamental change in political outlook after the age of 25. At the end of this article I append a compendium of quotations about lock-in and persistence, the authorities quoted being Aristotle, David Hume, Adam Smith, Jefferson, Arthur Schopenhauer, Oscar Wilde, M. Kent Jennings, Richard G. Niemi, Marvin Minsky, Duane F. Alwin, Ronald L. Cohen, Theodore M. Newcombe, David O. Sears, and Carolyn L. Funk.<sup>6</sup>

The power and prevalence of the forces toward lock-in—or *against* restructuring one’s sensibilities—give significance to the uncommon individuals who overcome such forces, who in fact change their political views, particularly later in life. The significance stems in part from the great limitations in our ability to imagine what it is like to do something, such as riding a bicycle, we have never done, or being something, such as a Catholic, we have never been. We may see some other person do it or be it, but “it is by the imagination only that we can form any conception of what are his sensations,” and “It is the impressions of our own senses only, not those of his, which our imaginations copy” (Smith 1776/1790, 9). It is difficult for our imagination to work with impressions that we lack. Mill spoke of those who are “competently acquainted” with both of two competing preferences. Some facets of knowing an idea may be possible only by having had the living experience of *believing* it. Just as I may not know the merit of riding a bicycle without ever having done so, I may not know the merit of embracing or espousing a certain policy position without ever having done so. Accordingly, we are more likely to attribute to someone “competent acquaintance” with both of two competing ideological views if he has in fact lived both. Economists speak of the “experience characteristics” of a good (Nelson 1974), Michael Polanyi speaks of personal or inarticulate or tacit knowledge (Polanyi 1962; 1963; 1967), and Hume (e.g., 1739/1793, book II, part III, section III) and Smith (1776/1790, 16-17, 165) speak of the inseparability of judging and sentiment (including emotions and passions), and hence the inseparability of knowledge and sentiment. But even if one has never read these authors or others who write along similar lines, a human being knows intuitively—that is, from experience!—that experience is a special source of knowledge.

We take as empirical fact that the Iron Curtain blocked geographical migration principally in one direction.<sup>7</sup> That empirical pattern and our reasoning

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6. For a nice graphical presentation distinguishing six models of life-course stability (or lack thereof)—including “impressionable years,” “persistence,” and “increasing persistence”—see Alwin (1994, 142ff).

7. Nathan Ashby provides more generalized empirical findings about migration and economic freedom, among the lower 48 states of the United States (Ashby 2007) and among different nations (Ashby 2010).

about experience and demonstrated preference, and associated maxims and presumptions (not axioms), might tell us something about which side was superior.

In analogous fashion, one might assert an empirical pattern in ideological migration, that it goes preponderantly in a certain direction, as evidence for the greater wisdom of that direction. That we should draw a lesson from people reconsidering their socialist views and moving away from collectivism is the theme of the six autobiographical essays contained in *The God That Failed* (Crossman 1949). There are countless works about a particular individual restructuring his or her outlook and moving away from the left. That theme rises in many works on twentieth century intellectuals (see Diggins 1975; Nash 1976; O’Neill 1982; Hollander 2006; Fleming 2009) and in collections of autobiographical essays (see Crossman 1949; Bunzel 1988; Eberstadt 2007; Block 2010). Another migration pattern is in evidence on a website housing “Testimonials by former libertarians and objectivists” (Huben 2007).

My own classical liberal orientation leads me to avoid ‘left versus right’ and ‘liberal versus conservative.’ I looked at migration in terms of growing more or less classical liberal. Also, any investigation should look only at intellectuals—authors—who actually put their policy and political judgments on the record and thereby make themselves accountable for their judgments in a way that non-intellectuals do not.<sup>8</sup> If it could be shown, empirically, that most intellectuals who migrated (either growing more classical liberal or less) after young adulthood have gone in the classical liberal direction, then that empirical finding, coupled with the theory sketched here, would provide a sort of meta-evidence for classical liberalism. Or so I thought when, years ago, I developed ambitions to undertake such a project. Again, I had been aware of certain problems with the idea from the start, but over time the problems loomed larger.

## **Problems with the argument that migration patterns constitute meta-evidence**

One could propose that, within the period of several hundred years of the modern world, and within stable political orders, up to the present moment, there has been some entire ‘population’ of ‘intellectuals,’ and aim to provide evidence of migration patterns within such population. I do not want to say more about the notion of tracking one’s growing more/less classical liberal, except to add one remark. I believe there is a syndrome of apostasy, usually fairly youthful, from

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8. I give some discussion to the incentives that come with going on the record in Klein (2012, 1253-1254).

classical liberal or libertarian ideas—that is, sometimes people see certain simple formulas, get attached to them for a while, come to decide that they are simplistic, and then give them up to one degree or another. None of the economics Nobel laureates is an example of such syndrome, but if one were to approach that whole population of intellectuals, such a sub-pattern of migration would have to be figured in.

In raising problems with the meta-evidence argument, I will focus on the investigation undertaken here, of the 71 economics laureates. Many of the problems would also afflict any wider investigation.

**Problem 1:** The most immediate problem with touting our investigation as evidence for the wisdom of classical liberalism is that, even if one accepted the judgments displayed in Figure 1 and the corresponding claim that a preponderance of Nobel economics migrants are those who grew more classical liberal, there is no firm basis for saying that, as regards such migration, the set of 71 economists is representative of some larger population of economists. Maybe some other sample of eminent economists, such as past presidents of the American Economic Association, would yield different results. Moreover, there is no firm basis for saying that the larger population of economists is representative of some still larger population of intellectuals—studying economics or being an economist may be special in some way, as some have alleged.<sup>9</sup> Worries about the choice of the set of individuals to be investigated, based on ad hominem arguments, are sound and proper: I have an axe to grind and I chose the set with a pretty good sense of what the results would be.

**Problem 2:** Even if one granted the results for the 71 laureates, and even if one granted that they are representative of some larger population of economists or even all intellectuals of the historical span corresponding to the collective adult experiences of the 71 individuals, say, the span from 1920 to 2013, one might argue that that slice of history is special, and notably for rude awakenings to disadvantages of contravening classical liberal principles, resulting in migrations especially in the classical liberal direction, and hence is not representative of a population of intellectuals extending outside such historical bounds.

**Problem 3 (really, a family of problems):** Never mind the empirics of ideological migration—how sound is the argument that enhanced wisdom is indicated by an individual’s migration? In offering the initial argument I provided

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9. George Stigler (1959, 527) said that studying economics makes one “conservative.” Many have suggested economists are especially market oriented (quotations from Frédéric Bastiat, Gunnar Myrdal, Stigler, Paul Krugman, Deirdre McCloskey, and Robert Kuttner are offered in Klein and Stern 2007, 309-311). Economists are measurably more classical liberal than others in the social sciences and humanities (see Klein and Stern 2005, 283-286).

a passage from John Stuart Mill. But two paragraphs later Mill acknowledges difficulties:

Capacity for the nobler feelings is in most natures a very tender plant, easily killed, not only by hostile influences, but by mere want of sustenance.... Men lose their high aspirations as they lose their intellectual tastes, because they have not time or opportunity for indulging them; and they addict themselves to inferior pleasures, not because they deliberately prefer them, but because they are either the only ones to which they have access, or the only ones which they are any longer capable of enjoying. It may be questioned whether any one who has remained equally susceptible to both classes of pleasures, ever knowingly and calmly preferred the lower; though many, in all ages, have broken down in an ineffectual attempt to combine both. (Mill 1863)

In 2003 I conducted a survey of the memberships of six scholarly associations. I asked the respondents, the vast majority of whom had Ph.D.s, and the substantial majority of which had careers in academia, to answer eighteen policy questions. The eighteen questions were, in fact, asked twice: First, what did you think when you were 25 years old? Second, what do you think now? The prime impetus for the survey ([link](#) to the survey instrument) was to see whether people who had migrated tended to go in the classical liberal direction, as opposed to the contrary direction. As it happens, the results, though confirming that most people change little after the age of 25, did *not* provide evidence that migration, when it happens, tends to go in the classical liberal direction—the data show migration pretty evenly split between the two directions. The results took some of the wind out of my sails.<sup>10</sup> I could attempt to discount the results along the lines of Mill's remarks about access and capability of enjoyment: The respondents, as dues-paying members of certain professional scholarly associations and, for most, as academics, perhaps are immersed in a certain milieu with certain pressures. But more than anything my tendency has been to back off of the meta-evidence argument.

Mill, at any rate, holds on to his basic argument about preferences generally, and he proposes that we count noses:

On a question which is the best worth having of two pleasures, or which of two modes of existence is the most grateful to the feelings,

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10. The 'now' data from the survey is used in numerous publications by Charlotta Stern and myself. The when-25 data from the survey has never been released or used in published work.

apart from its moral attributes and from its consequences, the judgment of those who are qualified by knowledge of both, or, if they differ, that of the majority among them, must be admitted as final. (Mill 1863)

So, one can question the basic argument about migration and wisdom. A person might believe the better idea of two ideas, but for bad reasons. Once his reasons are found bad, he migrates to a different idea, even though other good reasons justify the first. Such might not be the tendency, but certainly it can happen.

One's discourse may be addressed to numerous publics, and the more prominent one becomes the larger and more numerous the publics become. We have good cause to throw out politicians—and, correspondingly, in our investigation it is reason to discount the case of Ohlin, who led a political party in Sweden. But the reasons for throwing out politicians in fact pertain to a good extent to all intellectuals, especially ambitious and prominent ones, like those who win Nobel Prizes. As a speaker's discourse situation grows more complex, he might grow more susceptible to various kinds of intellectual corruption. But, also, we wise analysts might interpret the same words he speaks differently. Where we say he stands depends not only on his words but also on the publics they are addressed to. Furthermore, the character we think represented by where he stands on issues might depend on the place and prominence he holds.

**Other possible problems:** Perhaps some intellectuals like to change their mind, maybe for the notoriety in doing so, or maybe from sheer boredom. Perhaps intellectuals, with age, tend to gravitate toward the status quo. Perhaps some ideologies are more susceptible to lock-in than others. These and other points are worth thinking about, but I press on.

## Other motivations for the project

The problems might be so great that the project does not work as evidence for the wisdom of classical liberalism. Still, there are other motivations to fall back on. Adam Smith would have us strive to make a becoming use of what is our own, and he would say that we do that by serving universal benevolence. To gain understanding of what “universal benevolence” means, and how to serve it, we need to have encounters with exemplars, to dwell in the minds of great men and women—it is in sympathy *with them*, regarding the *propriety* of policy actions and policy speech-acts, that our approbation or disapprobation of such things is enshrouded (Smith 1790, part IV). We need to see how they exercised judgment about the most important things—including the most important aspects of human

betterment, the most important interpretations to employ in puzzling over such matters, the most important problems, troubles, or challenges, the most important formulations of a particular issue, the most important positions on the issue, the most important arguments for a position, the most important grounds or evidence for an argument, and so on. Every “most important” refers to what is most important among the whole universe of things to consider, so a judgment of what is most important, and how things stack up, relates to the judge’s widest knowledge of things. All such judgments are made in service to purposes and duties that are, as it were, intellectually primordial. The individual person experiments in judgment, and commitments form. The character takes shape. How an exemplar develops through time is something we can learn from regardless of any considerations of patterns of ideological migration.

Other motivations include:

- The profiles might spark contemplation about the relation between economics and other areas of scholarship—politics, ethics, morals, aesthetics, psychology, and so on.
- The profiles provide material for thinking about character types among economists, or for developing a characterology of economics.
- The profiles might help us in pondering the notion that studying economics tends to make one more classical liberal.
- By reading about the 71 individuals, we learn about important trajectories over the past hundred years—in politics, economics, culture—and in a variety of countries. Intellectual biography is a pleasurable way to approach history.
- For one who wants to learn about Trygve Haavelmo’s political views, his profile is a handy source. The profiles offer individual ideological portraits.

## How the project was carried out

I coordinated the writing of the 71 profiles. Of those authored by Ryan Daza, Hannah Mead, and myself, the process usually worked as follows: Mead got the ball rolling by assembling primary information and a short profile of the laureate. I would review and rewrite and add material, and then pass it to Daza, who would usually then scour a wide range of materials and expand the document substantially. I would again review and rewrite. The Managing Editor of *Econ Journal Watch*, Jason Briggeman, though not listed as coauthor on any of these profiles, played a significant role by suggesting improvements to the profiles as drafted.

Again, eight of the profiles are written by people other than (some combination of) Daza, Mead, and myself. In those profiles, the portrait painted generally sustains the migrations that I indicate in my Table 1 above, with the exception of J. Daniel Hammond's profile of Milton Friedman, who, I say, grew more classical liberal during the last 50 years of his long life.

**The questionnaire:** A questionnaire was sent by email to the laureates, and twelve of them graciously provided responses: Kenneth Arrow, Ronald Coase (who, sadly, has since passed away), Peter Diamond, Eric Maskin, James Mirrlees, Roger Myerson, Edward Prescott, Thomas Schelling, William Sharpe, Vernon Smith, Robert Solow, and Michael Spence. The response of each is incorporated into his profile. Also, we have created a special document containing only the twelve responses ([link](#)).

**The Overseeing Referee:** Internal review at *Econ Journal Watch*, for material authored by an editor of the journal, requires approval by two of the other editors; this project has received such approval. Almost all EJW material is also externally refereed.<sup>11</sup> But for this project it would have been cumbersome to arrange a special referee for each of the 71 profiles. Instead we aimed to recruit an Overseeing Referee, who would fulfill the following role:

1. The Overseeing Referee would observe the production process, by sharing the Dropbox folder in which all of the drafts of all of the work was saved, by being copied on important messages among collaborators, and by having an open channel by telephone and email to me, the principal investigator.
2. The Overseeing Referee would read material and offer feedback.
3. The Overseeing Referee would write an independent report on the final product, a report to be published as part of the project. The Overseeing Referee would have complete control over his report; it would be published exactly as he wished it to be. The report would offer commentary on the project and assess the integrity of its execution.

Professor David Colander of Middlebury College agreed to serve as Overseeing Referee. His report is included in the project ([link](#)). We are extremely grateful to him for his generous participation.

**The electronic bundling of the 71 profiles:** We have opted to bundle all 71 profiles into a single document called "Ideological Profiles of the Economics

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11. More specifically, the journal's policy is that all material located in the six thematic sections other than "Watchpad" is externally reviewed (which, in the case of comments, might take the form of a reply from the commented-on authors). The present project is located in the "Character Issues" section of the journal. The journal website provides descriptions of the seven sections of the journal ([link](#)).

Laureates” ([link](#)). We have provided links inside the document for navigating among the profiles.

## Appendix 1: Selected Quotations on the Lock-in of Ideological Sensibilities

Aristotle, in the *Nicomachean Ethics* (book II, ch. 1):

For playing the harp makes both good and bad harpists, and it is analogous in the case of builders and all the rest; for building well makes good builders, and building badly makes bad ones. ... That is why we must perform the right activities, since differences in these imply corresponding differences in the states. It is not unimportant, then, to acquire one sort of habit or another, right from our youth. On the contrary, it is very important, indeed all-important.

David Hume (1896/1739, 116):

All those opinions and notions of things, to which we have been accustom'd from our infancy, take such deep root, that 'tis impossible for us, by all the powers of reason and experience, to eradicate them; and this habit not only approaches in its influence, but even on many occasions prevails over that which arises from the constant and inseparable union of causes and effects.

David Hume (1896/1739, 453):

It has been prov'd at large, that the influence of belief is at once to inliven and infix any idea in the imagination, and prevent all kind of hesitation and uncertainty about it. Both these circumstances are advantageous. By the vivacity of the idea we interest the fancy, and produce, tho' in a lesser degree, the same pleasure, which arises from a moderate passion. As the vivacity of the idea gives pleasure, so its certainty prevents uneasiness, by fixing one particular idea in the mind, and keeping it from wavering in the choice of its objects. 'Tis a quality of human nature, which is conspicuous on many occasions, and is common both to the mind and body, that too sudden and violent a change is unpleasant to us, and that however any objects may in themselves be indifferent, yet their alteration gives uneasiness. As 'tis

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the nature of doubt to cause a variation in the thought, and transport us suddenly from one idea to another, it must of consequence be the occasion of pain. This pain chiefly takes place, where interest, relation, or the greatness and novelty of any event interests us in it.

Adam Smith (1776/1790, 158):

The opinion which we entertain of our own character depends entirely on our judgments concerning our past conduct. It is so disagreeable to think ill of ourselves, that we often purposely turn away our view from those circumstances which might render that judgment unfavourable. . . . Rather than see our own behaviour under so disagreeable an aspect, we too often, foolishly and weakly, endeavour to exasperate anew those unjust passions which had formerly misled us; we endeavour by artifice to awaken our old hatreds, and irritate afresh our almost forgotten resentments: we even exert ourselves for this miserable purpose, and thus persevere in injustice, merely because we once were unjust, and because we are ashamed and afraid to see that we were so.

Thomas Jefferson (1784/1814, 1341):

[F]ew, in their after-years, have occasion to revise their college opinions.

Arthur Schopenhauer (1794/1851, 60):

It is quite natural for us to maintain a defensive and negative attitude to every new opinion on whose subject we have already given a firm judgment. For such an opinion makes a hostile encroachment on the hitherto exclusive system of our convictions, disturbs the peace and consolation derived therefrom, expects us to undertake fresh exertions, and declares as wasted all our previous efforts.

Oscar Wilde (1913/1891, ch. 2):

We degenerate into hideous puppets, haunted by the memory of the passions of which we were too much afraid, and the exquisite temptations that we had not the courage to yield to. Youth! Youth! There is absolutely nothing in the world but youth!

M. Kent Jennings and Richard G. Niemi (1981, 74):

The persistence exhibited across the eight-year span was rather remarkable for a number of orientations, especially in the parental generation ... Thus, while we would emphasize the apparent openness to change, there is no gainsaying the evidence of lifelong persistence. ... [D]iscontinuities occurred more frequently in early than in later adulthood. Almost invariably, by any measure, there was less stability among the young than among their parents. To this extent theories that describe young adulthood as a time of structuring and restructuring of the political self are supported. Similarly, the theories of “hardening” associated with the middle years receive support.

David O. Sears (1983, 108):

The first goal of this essay has been to pose the question of persistence of early-acquired political dispositions, suggest how it might best be conceptualized, and present a brief summary of the best available evidence in determining persistence. As a crude baseline, this review suggests that some combination of a persistence and an impressionable years viewpoint best represents the course of basic symbolic predispositions over the lifespan.

Marvin Minsky (1986, 68):

[It is] singularly hard to change the agents we might want most to change—the ones that, in our infancy, helped shape our longest-lasting self-ideals. ... These agents are hard to change because of their special evolutionary origin. The long-term stability of many other mental agencies depends on how slowly we change our images of what we ought to be like. Few of us would survive if, left to random chance, our most adventurous impulses could tamper freely with the basis of our personalities. Why would that be such a bad thing to do? Because an ordinary “change of mind” can be reversed if it leads to a bad result. But when you change your self-ideals—then nothing is left to turn you back.

Marvin Minsky (1986, 180):<sup>12</sup>

[Once] a scheme persists for long enough, it gets to be extremely hard to change—not because of limitations inherent in itself or in the agency that developed it, but because of how the rest of the society depends upon its present form.

M. Kent Jennings (1990, 347-348):

People do not generally change as much later on as they do during the pivotal first decade of adult life. People do tend to conserve what they have, what they are familiar with, what they have become habituated to. Thus, the composition of the “crystals” involved in the crystallization process can make a substantial difference over the ensuing years for individuals as well as for the polity.

Duane F. Alwin, Ronald L. Cohen, and Theodore M. Newcomb (1991, 60):

Whether measured by their attitudes toward political issues, their voting preferences, their opinions toward various public figures, or their party identifications, Bennington women who were relatively conservative while in college remained relatively conservative a quarter-century later, and those who were relatively nonconservative while in college remained nonconservative in 1960–61.

David O. Sears and Carolyn L. Funk (1999, 1):

[R]espondents were measured on four occasions between 1940 and 1977, from roughly age 30 to retirement age. These partisan attitudes were highly stable over this long period... Examination of the trajectories of the individual attitudes reveals that the most common pattern was constancy across time... There was evidence of increasing attitude crystallization through the life span, infusing core predispositions with increasing psychological strength over time.

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12. See also Minsky (1986, 46, 65, 146, 154, 175, 178, 210, 254).

## Appendix 2: Ideological Ascriptions to Laureates' Late Views

In Figure 2 I ascribe to each laureate, in his or her late years, a rough location in an ideological space ranging from “most classical liberal” to “least classical liberal.” The rows indicate my confidence, or lack thereof, in doing so.

**Figure 2. Ideological ascriptions to the laureates' late views**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	most classical liberal...							...least classical liberal		
Most confident	Becker Coase Friedman Hayek Smith							Frisch Leontief Tinbergen		
Somewhat confident	Miller	Buchanan Mundell Ostrom Stigler	Lucas North Prescott Schultz	Schelling	Fogel Heckman Maskin Tobin	Mirrlees Ohlin Samuelson	Akerlof Arrow Diamond Kahneman Krugman Modigliani Sen Solow Stiglitz Stone			
Not confident	Markowitz Scholes		Kydland Merton Sargent Williamson	Harsanyi Hicks Phelps	Kuznets Myerson Roth Sharpe	Engle Hurwicz McFadden Meade Mortensen Pissarides Shapley Sims Spence Vickrey	Granger Haavelmo Klein Lewis Simon	Koopmans Myrdal	Kantorovich	
Least confident			Allais Nash			Selten	Debreu	Aumann		

The columns represent gradations of being classical liberal. Such discretization might seem sometimes to exaggerate differences (say, between Becker and Stigler?), as boundaries have to be drawn somewhere. The same point pertains to the rows (and, the listing of names within each cell is merely alphabetical).

In filling out the table, I began by locating certain laureates, and then, as I progressed, I located a laureate in part in relation to others I had previously located (sometimes revising, of course). There is no question that I have been able to locate

the Americans most confidently, and no doubt according to sensibilities in some respects distinctively American, and then tried to incorporate the non-Americans in some suitable way. My doubts in having done so have been figured into the confidence rating (that is, the row) given with the placing of each name.

### Appendix 3: Acknowledgments

It is Jason Briggeman's job, as Managing Editor, to make *Econ Journal Watch* work, but the cleaning and fixing and dressing of this large project was an exceptional task. I owe Jason huge thanks for his protean work in pulling everything together under a deadline that was cruelly short.

I am grateful to all of the scholars who have authored or coauthored profiles in this project, Paul Mueller and Jeremy Horpedahl for editorial help, to the twelve laureates who responded to the questionnaire, and to David Colander for serving as Overseeing Referee. Other individuals who helped with particular profiles are thanked in footnotes.

I need to add that I am very grateful to Ted Balaker for years of collaboration on the topic of ideological migration. We worked along lines not confined to the economics laureates. Stephen Davies also worked extensively with Ted and me, and has greatly enriched my thinking on the topic of ideological migration. The three of us have produced many ideological profiles of intellectuals, profiles that are still unpublished. I hope that this project will spark new life in our joint efforts.

I owe thanks also to a few people who led me to the focus on the Nobel economics laureates. First, I thank Nils Karlson and Niclas Berggren for inviting me to speak on ideological migration at the 2009 Stockholm meeting of the Mont Pelerin Society. In my presentation I explained that the project with Balaker and Davies—at that time vast and open-ended in empirical scope—was floundering, that it suffered from grave problems, notably of empirical tractability. After I had made my presentation, Karen Horn made a presentation on her superb book based on conversations with ten Nobel economists (Horn 2009). In her presentation she remarked on migration patterns among those interviewed. Terence Kealey then urged me to undertake an investigation confined to the Nobel economists. I thank Karen and Terence for the idea of such a project.

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## On the Ideological Migration of the Economics Laureates

David Colander<sup>1</sup>

[LINK TO ABSTRACT](#)

As Dan Klein (2013) explains in the introduction, the stated goal of the project is relatively simple—to see if there has been a migration away from, or toward, classical liberal thinking by Nobel Prize-winning economists during the course of their adult lives. Of course, simple statements can raise highly complex sets of issues, and simplicity of statement can, and often does, hide multiple layers of complexity. One of my goals in this essay to peel back a couple of those layers, and thereby provide some nuance and context with which the results of the project should be understood.

A second goal is more straightforward. I was brought on to the project to serve what Dan described as an “overseer role,” by which is meant a referee who reviews a project as it is being carried out, rather than during the journal’s peer reviewing process or in the discussion process that occurs after publication. As I will discuss below, including an overseer is, I believe, a useful way to carry out a project such as this. One reason it is useful is that Dan is associated with strong libertarian views, and that association might lead the reader to interpret any results he arrives at as reflecting his views. A built-in reviewer provides the reader with some assurance that the project’s conclusions do not unduly reflect the particular ideological bias of the project director.<sup>2</sup> I will discuss that overseer goal in more detail below, but let me state here at the beginning that I did not detect any strong

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2. I say “unduly” because the bias can never be totally removed. The overseer is likely chosen from a set of candidates who the project director believes will be seen as relatively fair by others, but within that set, it is only logical that he would choose someone who he believes is most likely to be sympathetic to the goals of the project.

ideological bias in how Dan arrived at his conclusions. The conclusions that the project reaches, given the definitions of terms that the project used, are reasonable conclusions given my reading of the evidence. But, as Dan also concludes, those conclusions are very much based on the definitions used, and, in my view, have few implications about how studying economics affects economists' policy views.

## General overview of the project

As I stated above, the goal of the project is to answer the question: Has there been a migration away from, or toward, classical liberalism in the thinking of Nobel Prize-winning economists? To answer that question one must define *classical liberal*, and therein lies the rub. The way in which one defines the term has major implications for the conclusions one arrives at. In accepting the task of “overseer” I queried Dan on what he meant by classical liberal. Here is what I wrote him:

I think the definition of classical liberal is hard to specify—and how one defines it will likely influence results. I associate classical liberal with methodology, not policy views. I tend to regard Keynes as methodologically belonging in the classical liberal tradition, (Millian variety) whereas his policy views differed significantly from Hayek's who is also a classical liberal. So I will probably be questioning the possibility of coming to a conclusion in what I write.

His response was the following:

OK, “classical liberal” may not be a great term for the pattern of policy judgment I mean when I speak of “becoming more classical liberal,” or “moving in the classical liberal direction.” But this is just an issue of the name for the movement I mean, yes? Would you be more comfortable with “libertarian” or “strong presumption of liberty”? (My personal favorite is to talk about someone's views towards governmentalizing social affairs, but I'm reluctant to try to make that work.) I am a bit reluctant to use “laissez faire”, and even more reluctant to use “free markets” (the latter, because of the “markets” part). Whatever terms are used, the question I have for you is: You do agree that talking about movements towards/away from libertarian views/a presumption of liberty/laissez faire is meaningful, yes?

I responded that yes, I do, and, although that is not how I would define a classical liberal, I did know what he meant. I report this interchange because it goes to interpretation of results. The focus of the study is on how an economist's presumption about government's useful involvement in policy changed over their adult life. Did it shift toward favoring a more or less classical liberal view, interpreted in Dan's 'libertarian' sense?

## Different conceptions of classical liberalism

Although I accepted Dan's use of the term *classical liberal*, I told him that I would spend part of my essay explaining my conception of the term and how it differs from his. I do so because how the concept 'libertarian' relates to the concept 'classical liberal' goes to the heart of many of the interpretative differences that I have with Dan. As I understand his view he sees political views as closely tied to one's understanding of economic theory and science. Thus, for Dan, if an economist becomes more classical liberal, the economist is becoming more pro-market. I see classical liberalism in a different way—I see it as far less focused on any particular political views, and far more focused on blending a belief in the importance of individual liberty with a methodology for interpreting what that belief implies for policy. It is as, or more, concerned with how one approaches problems, and how one reaches the particular political views one has, than it is with what political views one has. As a person becomes more classically liberal, it is harder and harder to guess where he or she will come out on policy issues without a full understanding of the policy context.

What that means is that, for me, classical liberals in my sense of the term cannot be ranked on their political beliefs. Reading the views of many of the Nobel Prize winners, views that are nicely presented in the summary section of this project, and also in the survey answers that the project includes, I suspect that I would classify more of the economists as classical liberal than would Dan, and that we would probably rank their classical liberal natures quite differently as well.

Actually, by design, the project only tangentially considers the classical liberalness of the economists in either of our interpretations. Its main focus is on the first order difference—did they become more or less classically liberal over time. But that first order change is also affected by the definition of classical liberalism one uses. Let me just consider one example. Ken Arrow notes that:

I have some trouble defining what is my "ideology," and how is it manifest in my scholarly or other behavior. I have and have had a set

of values. I don't think they have changed in a fundamental sense, but the changing issues in society have certainly led to different emphases.

In some sense, underlying any ideology has been an epistemology, one which has emphasized the uncertainty of knowledge and the difficulties of communicating it. This has always inhibited any extreme commitment on my part to a set of values or to a policy; there is always something on the other side. (Arrow 2013)

This, to me, is a statement consistent with classical liberal methodology, and, if he held those views throughout his career, which I think he has, it would lead me to classify Arrow as classical liberal, and to see no change in Arrow's ranking on my definition, despite his having changed his policy views towards ones which are less supportive of government intervention.

Using my interpretation of classical liberal would have likely led to a change in my specification of Milton Friedman, who, early on was more of a Knightian, who I regard as a strong advocate of classical liberal methodology but also strongly pro-market. But Friedman moved away from a Knightian methodological approach and started advocating positions in a way that did not capture and convey the inherent complexity of the policy positions he favored. For this reason I see Friedman as having moved away from classical liberalism (Colander and Freedman 2011). Just as someone might justify autocracy as necessary to save democracy from those who would destroy it, my conjecture is that Friedman justified his movement away from classical liberal methodology to himself by a 'lesser of two evils' argument. He saw himself fighting to support what he saw as the goals of classical liberalism, but found it necessary to abandon its methodology to save the system. That decision, in my view, may have been understandable, but it makes him less of a classical liberal.

Friedman's migration away from a classical liberal methodology likely had much to do with Friedman assuming a different role—that of a public intellectual advocating the market, a role that is difficult to combine with a classical liberal methodology. Paul Krugman exhibited a similar movement as he became a public intellectual advocating demand-side modern liberal (as opposed to classical liberal) policies. This means that by my definition, Krugman would have been classified as having grown significantly less classical liberal, not just slightly less classical liberal. The classification of Vernon Smith as having become more classical liberal, however, would not have changed. But the reason for that classification would have been different. For me, his answer to the question of whether he had moved in either direction (using the notion of ideological space) which was that he has “moved more and more out of that space” (V. Smith 2013) fits my view of classical liberalism.

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I am not arguing that classical liberals do not have a set of values that guide their policy views nor that they don't support liberty and property rights. They do, but, theirs are broad values that ideally reflect the values that Adam Smith's impartial observer might arrive at (Smith 1790). Arrow, in his answer to the questionnaire, nicely sums up a view that I believe is consistent with the underlying moral values of classical liberals. He writes:

To the extent that I have strong moral commitments, they are freedom for all humans and a respect for the values and opinions of others. With regard to the first, under the heading of freedom, I include economic viability (income, in a modern economy). The freedom to make choices in a market economy demands the ability to choose jobs and goods. I therefore have a built-in belief that reducing income inequality is not in contradiction to economic freedom but part of it. More concretely I found race discrimination, perfectly open in my younger days, to be an evil even if grounded in widespread popular support. (Arrow 2013)

In my view a classical liberal has a strong ideological support of individual freedom built into his or her ideology. Arrow states that. But, like Arrow, I see it as much more difficult to draw definite policy conclusions from that support of freedom than I believe Dan sees it. Specifically, there is much less specificity about what individual freedom means, since the individual is shaped by society. In libertarian thought, and in neoclassical economics, there seems to be a strong presumption that humans somehow exist almost independent of society, and thus 'freedom' can be defined relatively simply. Freedom means letting people do what they want, and having what Dan calls "a presumption of liberty." He writes: "By the term 'classical liberal' I mean maintaining a presumption of liberty. By 'liberty' I mean others, including the government, not messing with one's stuff" (Klein 2013, 220).

I have a much more nuanced view of classical liberal thought, freedom, and liberty. For example, John Stuart Mill talked about how individuals are influenced by society, and, for me, that influence undermines any simple definition of freedom or liberty. For me a classical liberal is open to many more policies and collective intrusions into the economic system than is a libertarian, as long as those collective intrusions are well thought-out, reflect the desired goals of the large majority of individuals, are based on a belief in equality of opportunity, are consistent with the legitimate constitutional order, and are consistent with the individual's moral code. John Stuart Mill is my example of highly refined classical liberal sensibilities.

In my methodological interpretation, for classical liberals an individual's utility function is not given; it is shaped by society, which means that concepts of freedom must be integrated into an evolutionary framework in which there are higher and higher levels of meta-preferences, meta-meta-preferences, and the like. Talking about freedom in such an evolutionary framework is much more difficult than it is when talking about freedom assuming individuals are independent of society. Thus, a classical liberal can believe in freedom, but can also believe that it is important to have an environment in which an individual is encouraged to reflect on his or her current views and tastes in order to discover his or her 'truer' views and tastes. Elsewhere (Colander and Chong 2009), I have argued that developing a choice architecture of freedom in the system should be a central goal of liberal policy.

For me, how one reaches a policy position is as important as what the policy position is. Thus, I would adapt Mill's discussion of the "quality" of pleasures (Mill 1863; quoted in Klein 2013, 223), to the quality of political positions. A political position arrived at through a deep and reflective consideration of all the very complicated issues, and a strong attempt to be a transparent 'honest broker', is a quite different political position than an otherwise identical political position arrived at in less considered ways.

Classical liberal methodology is not natural in most people—it is a learned approach that involves training in moral philosophy. It requires separating out one's own values from society's values as best one can. It requires significant study and reflection. Despite the fact that most consideration of economics' philosophical foundations has been eliminated from economics training, some such consideration remains part of general intellectual training. Thus, as economists age and learn, I would expect that they would become more methodologically classical liberal. Thus, on my methodological dimension, I would see a much stronger movement toward classical liberalism than Dan finds on his 'libertarian' dimension, because, for me, classical liberalism is a philosophy of openness and intellectual honesty. Dan's honest discussion of his initial motivation for this project, and how he backed away from that motivation over time, reflects to me a movement toward a classical liberal methodology on his part.

## **The science and art of economics**

The above issues are messy, and classical liberals recognized the messiness. They also recognized that ideological views shaped their understanding and their policy views. To deal with that tendency, they distinguished the art of economics from the science of economics. The science of economics was the study of *what is*,

normative economics was the study of *what should be*, and the art of economics was the study of *how to achieve the goals specified in normative economics, given what we have learned in the science of economics*.

The science of economics addressed how the economy works without any concern about policy whatsoever. Its goal was to arrive at ‘facts’ and ‘theorems’ that were conclusions that would be unobjectionable to any trained economist. Theorems and facts have no policy implications. These ‘scientific’ conclusions would not be based on value judgments and would be independent of goals. Since arriving at a policy position involved specifying value judgments, the science of economics would not arrive at any policy conclusion. For example, the science of economics might explain how, given specific assumptions, market rationing might work ‘efficiently’, given people’s tastes. But any conclusions would be abstract, and would not lead to any particular policy position, since the assumptions underlying the formal proof do not match reality. People’s tastes are not given, efficiency is not a final goal, and a consideration of moral issues was not part of that scientific analysis. So the science of economics had nothing directly to say about policy. Policy, for classical liberals, required going beyond science. It required a careful consideration of one’s normative goals, and reflection on the implications of eliminating assumptions upon which theorems were based. Doing that was an art that used insights from the science of economics but was not itself truly part of the science of economics. Policy involved moral and ethical dimensions that science did not.

The art of economics, where all policy existed, required a scope and method that went far beyond economic science. Its methodology was not the methodology of science. Scientific economics came to no conclusion about policy, because policy was far too complicated to arrive at conclusions based on analytic understanding alone. Applied policy economics did not try to be value-free science, but instead tried to be an ‘honest broker’ economics, considering all arguments and doing its best to explain its reasoning in arriving at a position. The results of the art of economics were precepts, not theorems or facts, and classical liberals could differ widely on policy positions.

As I have discussed in a number of articles (Colander 2009; 2011; 2013a) later economists blended the normative, positive, and ‘art’ branches of their field in a way that discouraged the classical liberal separation of policy and scientific analysis. Economists started talking about policy as if policy conclusions followed from science. That undermined what I call the ‘honest broker’ approach to policy, which recognizes that policy requires ideological and institutional judgments about which reasonable people might differ.

## Are Nobel winners an appropriate sample?

This differentiation between art and science raises a second issue about the study: the choice of Nobel Prize winners as the sample group. I see that choice as a reasonable one, not because Nobel Prize winners have any special knowledge of policy—I don't think they do—but because Nobel Prize winners are extremely bright economists, and because they comprise a sample that will generate broad interest from the lay public. But it is important to note the problems with the sample. A large problem with the sample is that the prize is specifically awarded in “Economic Sciences,” not in, say, applied policy. As I have argued elsewhere (Colander 2013b), getting a Nobel Prize does not signify anything about the recipient's insight into policy issues. Thus, there is no reason winners should have a sophisticated understanding of the art of economics, and of the difficulties of drawing policy implications from scientific conclusions. They might have that sophisticated understanding, since they are often brilliant, but it is not assured.<sup>3</sup>

## Other influences on perceived migration

Although there is no reason that the Nobel Prize winners should have expertise in the methodology of the art of economics, especially early in their careers, a number of them probably had expertise because of interest and early training. That likely includes Ken Arrow, Gunnar Myrdal, Paul Samuelson, George Stigler, Amartya Sen, F. A. Hayek, and John Hicks, among others. Others, such as James Buchanan, Vernon Smith, Franco Modigliani, Ragnar Frisch, Peter Diamond, and Paul Krugman, were probably less acquainted with it in their early training. But as they matured and entered into policy debates, I suspect that they learned by doing, and that learning may well account for some of their migration on Dan's dimension. I think this is what Dan has in mind when he thinks of political migration. It is the ‘a-ha’ moment when economists see that, even though

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3. Actually, the economics Nobel is not given only for science. Like the economics profession, the Nobel Prize committee waffles about the relationship between theory and policy, and it attempts to blend the two much more than would be appropriate were its members following a classical liberal methodology. One can see this waffling in Assar Lindbeck's discussion of the Nobel economics prize selection criteria. Although he carefully states that economic science is the primary criteria, he then blends applied policy into it, without any discussion of how policy and science might require different skills and expertise. He writes “When considering what should be regarded as a ‘worthy’ contribution, it is probably correct to say that the selection committee has looked, in particular, at the *originality* of the contribution, its scientific and practical *importance*, and its *impact* on scientific work. To provide shoulders on which other scholars can stand, and thus climb higher, has been regarded as an important contribution. To some extent, the committee has also considered the impact on society at large, including the impact on public policy” (Lindbeck 2001, emphases in original).

one's primary concern might be about social justice for all, policies of government control might not be the best way to resolve that concern. One recognizes that there are very subtle arguments for markets that popular discussions of policy and many economic models miss.<sup>4</sup>

This learning-by-doing aspect likely created a current that pushed the migration toward more support of markets as they aged. When one is young, and untrained in the limitations of theory, there is likely a tendency to think that policy will be as effective in practice as it is in one's models. Then, as one ages, and one recognizes that practice is quite different from theory, one becomes less convinced about the effectiveness of well-intentioned policy. Thus, the migration Dan is capturing may be the maturing process captured by the adage that if you are young and not liberal, then you have no heart, but if you are old and not conservative, then you have no brain.

Another set of influences on the migration involves the tenor of the times. In many ways, the policy thinking of the Nobel Prize winners reflects the changing times. This would suggest that as opposed to their being a monotonic migration, there was actually significant fluctuation in views, and the migration that is detected reflects the tenor of the times and when one takes one's observations. Four of the seven of those who Dan classifies as having grown "a lot more" classically liberal (Klein 2013, 219) were born between 1910 and 1920. That would place their formative years in the 1930s, which was a period of questioning the market. As Samuelson (1946, 187) put it, in the 1930s activism swept the profession like new disease on a South Sea island. Then, in the 1970s, the pendulum swung the other way, and economists of that time likely followed the pendulum. So much of what is being captured in the migration may well be tenor-of-the-times effects. In principle, one would want to filter out the tenor-of-the-times effects, and that filter would likely reduce the implication that there is a natural tendency for economists to support the market more as they age.

One more influence on migration is the 'public intellectual' effect discussed above. There is much demand for public figures who will take a strong stand one way or another on issues. Those economists willing to meet that demand will win fame and can significantly influence policy. Both Friedman and Krugman fall in that category, and thus one can question how much of the change seen in their political views reflects their changing role. The difference in interpretation between Dan Klein (2013, 230) and Dan Hammond (2013), concerning Friedman, likely reflects differences in views on those issues. I also would have been tempted to

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4. There are higher level 'a-ha' moments in which one recognizes that there are subtler and subtler arguments that can be made in support of either a government or market focus. Thus, overall policy views either in favor or against government intervention are difficult to make.

include Samuelson as having become less classical liberal over time, as he operated as a public figure foil to Friedman, and in doing so I suspect that he took pro-government positions that were stronger than he would have otherwise taken.

## The process

Let me next turn to a discussion of the general role of an overseer and how I played that role. One of the major reasons I agreed to do this project was that I saw the overseer model as innovative and useful for this type of study. I think it can become a model for future research on projects dealing with a squishy topic, where the terms are not well defined and where formal empirical validation of the argument is essentially impossible.

In *Analytical Economics*, Nicolas Georgescu-Roegen discussed the problem for economics of dealing with squishy, or what he calls dialectic, topics. He defines dialectic concepts as concepts “surrounded by a penumbra within which they overlap with their opposites,” and he distinguishes these from what he calls “arithmomorphic” concepts which are unambiguously bounded and form the grist for scientific study (Georgescu-Roegen 1966, 145). Science deals with arithmomorphic concepts and has its own methodology to drive researchers toward the truth. Science uses logic and empirical testing to keep researchers honest.

The art of economics does not shy away from dialectic topics, and there has been far too little discussion about the methodology appropriate for the art of economics. The problem is that dialectic subjects preclude pure logic and empirical testing, so they inevitably become soft and squishy. This leads many scientists to avoid them, leaving them to the humanists. You can see this in the questionnaire response by Arrow (2013) where he says that he has had “a preference for well-formulated problems (this is a limitation, not a boast), where at least what I am saying is clear.”

Having an overseer as part of one’s project design is a means of directly recognizing and dealing with the squishiness in the art of economics. To include an overseer is to embed an irritant in the research project who the project director knows will have an independent voice, whose job it is to call the project director out if he or she deviates from an honest broker role. This project design makes the project director far less likely to skim over issues that might undermine the results. In principle, the give between the overseer and the project director would take place even without an overseer. But it would be long delayed, and would take place in journals. Unfortunately, such interchanges can often take years.<sup>5</sup>

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5. *Econ Journal Watch* was created in part to foster such interchanges, and its “Sounds of Silence” list ([link](#)) is evidence that such interchanges often do not take place.

## IDEOLOGICAL MIGRATION OF THE ECONOMICS LAUREATES

One reason why such interchanges do not take place is that journals typically have audiences that are ideologically similar to the editors and authors, and academic writers tend to feel no need to respond to comments from individuals with a different ideological slant. This means that the discussion of project results is primarily done by people who essentially agree with the project's premise, leaving big issues undiscussed. My point is that the intellectual checks and balances embodied in peer review and the journal-article medium don't work well with squishy topics such as this. Having an overseer makes some interchange part of the process and thereby improves the checks and balances of the process.

When I was asked to play the overseer role, I thought immediately of the Delphi method, which is a structured communication technique of systematic, interactive forecasting (Dalkey and Helmer 1963). It assumes that conclusions from a structured group of independent individuals tends to be more accurate than those from unstructured groups, and relies on checks and balances of independent experts. Thus, it is similar to the overseer design.

For the overseer structure to work, one wants an overseer who is neither overly committed to the same views nor to the opposite views, who is independent of the author, and who is given a free hand. I suspect I was chosen by Dan as overseer for the same reason that I am often invited to conferences of both the right and the left. I am known as a gadfly. When the right wants a token on the left they often include me, and when the left wants a token on the right they often include me, since I fit in neither group but am sympathetic to both.

My actual input into the project was small. This is Dan's project. He copied me on all the considerable correspondence, and gave me shared access to the files of essays as they were being written, surveys, and figures once he had them. When I thought I might add something I passed along an email, but those instances were few. In one email, I encouraged him to leave the authors of profiles free to write what they want, and not to try to guide them. In another, when timing issues led Dan to consider dropping a planned diagram locating the Nobel economists on his classical liberal scale, I encouraged him to include it, even if it would be highly imperfect. I am pleased to say that, other than in the asking and structuring of the question itself, I saw nothing in the process that I would consider unfair or influenced by his views.<sup>6</sup> He was an efficient project manager who seemed to me to be an honest broker.

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6. No one can escape the ideological views inherent in the questions they ask. Libertarians tend to ask this migration question much more than others. I suspect they do this because they believe it will show movement toward political support of the market. Even if the evidence is squishy and almost nothing firm can be drawn from the conclusions, they sense that the highly tentative conclusions will likely be interpreted by people as supporting their views.

To say that he was an honest broker is not to say that he is right in his classifications. For the most part I do not have a good enough knowledge of the Nobel Prize-winning economists' political views, independent from what I have read here, to have much input on where they should be ranked and how they have changed. This includes the two with whom I did my dissertation, Bill Vickrey and Edmund Phelps. Political views and policy are not a normal topic of conversation among economists, and economists' views are often not apparent from their scientific work. This is as it should be, as I discussed above.

To provide an additional check on Dan's rankings, I suggested to Dan that we turn to a broader group of economists who would likely have more information—the email list of the Societies for the History of Economics (SHOE), of which I am a member. I wrote to the list subscribers, telling them of the project and listing the laureates who had been tentatively classified as growing more classical liberal or less classical liberal (Colander 2013c).<sup>7</sup> I asked them (1) whether any of Dan's initial classifications stood out as not fitting their expectations and (2) whether there were other Nobel Prize winners who they would see as having migrated in their policy views and hence should be included in the list.

The SHOE list includes economists on both the right and the left, so I see the composite list to be relatively politically neutral. Dan joined the list and thus had access to all the discussion that I had. Once the specifics of the project were clarified (because of my poor specification, some thought initially that Dan meant economists changing their views when they won the Nobel Prize, not over their lifetime), there were few significant suggested changes.

Lars Jonung (2013) of Lund University argued that Ohlin remained a “social liberal” throughout his life, true to his views as they emerged in the 1930s and thus should be in the “no-change” grouping. Carlos Rodríguez Braun (2013) of the Universidad Complutense suggested that “perhaps Hicks and Allais could be mentioned in the sense of ‘changing sides’, the one siding more and the other less close to Hayek's ideas as years went by.” There were also discussions about Hayek's classification and movement. But overall, there were not significant arguments for changing classifications.

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7. The process of classifying was ongoing, and it changed as the project progressed and more information was uncovered. Because of tight deadlines, my essay was written based on an early draft of Dan's essay, with Dan keeping me informed about changes. Compared to the initial version shared at SHOE, in the final version there were three economists added as having become more classically liberal (Mirrlees, Sargent, and Sen), one economist elevated in the extent of becoming more classical liberal (Arrow), and one added as having become less classical liberal (Hicks). It should, however, be remembered that the large majority of Nobel Prize winners were classified as not having changed their views one way or the other, and so the visual presentation of only those who changed their views one way or another makes it look as if there is more tendency for change than there was.

## A pleasant divertissement

Dan’s conclusion that there is a slight tendency for the sample group, over the period considered, to have become more classical liberal—in the sense of favoring markets more and state intervention less—seems to be a reasonable one. But what are we to make of Dan’s conclusion? My suggestion is: Not much. Mason Gaffney of the University of California, Riverside, in a reply to my posting to the SHOE list, provided what I think is a reasonable perspective. He wrote:

I’d love to pitch in, out of respect for you two, but this evokes the mythical “Apple of Discord” that led to the Trojan War, with too many undefined terms (including “migrate”), too much space for opinionizing, and the specter of too many learned and talented people distracted from higher and better uses of their time. So, with all respect, I’ll pass. (Gaffney 2013)

I responded, “My view is not that different from yours, but I see it as a pleasant divertissement.”

Seeing a research project as a divertissement should not undermine its interest to lay people, since they are often more interested in divertissements than they are in serious research. In many ways the Nobel Prize is itself a divertissement which attracts an enormous amount of interest. Thus, I suspect considering the migration in Nobel Prize winners’ policy views will be of interest to readers. Economics plays an important role in policy, and that role is too little examined. So a little divertissement considering it can be worthwhile, as long as one does not take the results too seriously.

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## Ideological Profiles of the Economics Laureates

[LINK TO ABSTRACT](#)

This document contains ideological profiles of the 71 Nobel laureates in economics, 1969–2012. It is the chief part of the project called “Ideological Migration of the Economics Laureates,” presented in the September 2013 issue of *Econ Journal Watch*.

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The document can also be navigated by clicking on a laureate’s name in the table below to jump to his or her profile (and at the bottom of every page there is a link back to this navigation table).

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# George A. Akerlof

by Daniel B. Klein<sup>1</sup>, Ryan Daza<sup>2</sup>, and Hannah Mead<sup>3</sup>

George Akerlof (1940–) says that one of his earliest “significant thoughts in economics” came to him around age 11 or 12:

If my father lost his job, and my family stopped spending their money, then another father (it was typically fathers rather than mothers who worked at the time) would lose his job, and so on. The economy would spiral downward. Well, ... my father got re-employed, so the system was not put to a test. Although slightly wrong, I had understood the foundation of Keynesian economics. The exploration of the reasons for unemployment and the defense of Keynesian macroeconomics have dominated my work as an economist. It is thus no coincidence, perhaps, either that I had made this observation, or that I now remember it. (Akerlof 2002)

Akerlof earned his bachelor’s degree in economics at Yale, going on to the Massachusetts Institute of Technology for his Ph.D.; at MIT, Akerlof worked under Robert Solow (Main 2008). Akerlof has taught primarily at the University of California at Berkeley, although he has done stints elsewhere, including one on staff at the Council of Economic Advisers for the administration of Richard Nixon, to whom Akerlof says he held “no loyalty” (Akerlof 2002). Akerlof is married to fellow economist Janet Yellen, who for two years chaired President Clinton’s Council of Economic Advisers and who has served as Vice Chair of the Federal Reserve Board of Governors since 2010. Akerlof (2002) says of Yellen: “Our lone disagreement [about macroeconomics] is that she is a bit more supportive of free trade than I.”

Akerlof was awarded the 2001 Nobel Prize in economics along with Michael Spence and Joseph Stiglitz for their analyses of markets with asymmetric information. Akerlof’s work on asymmetric information began when he noted the importance of disparities in information among individuals engaging in exchange. His famous example was of the used-car market (Akerlof 1970). In the primary model, the seller knows the car’s quality and the buyer does not, and as a result the market may unravel. David Henderson suggests that Akerlof’s analysis did

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3. Graduate student, George Mason University, Fairfax, VA 22030.

not argue particularly for government intervention: “Instead, he pointed out that many free-market institutions can be seen as ways of solving or reducing ‘lemon problems.’ One solution Akerlof noted is warranties...” (Henderson 2008). On the other hand, Akerlof (1970) made no distinction between free-market or voluntary institutions and those that initiate coercion, as he included occupational licensing in his listing of “counteracting institutions.”

Akerlof also has been prolific in other areas including cycles of poverty and crime among African-Americans, inflation and employment, and the impact of social norms on family structure. Brian Main (2008) writes: “A more comprehensive assessment of [Akerlof’s] contribution to economics would be as providing a better behavioural underpinning for macroeconomics as a major figure in the New Keynesian movement.”

Karen Horn interviewed Akerlof and asked what triggered his interest in economics. In response Akerlof described his notion of libertarianism:

I have always been interested in economics, at least as long as I can remember. I think I started out with economics in a very libertarian view which I still sort of have, even though, as I have grown older, I have begun to qualify this view more. The libertarian view means that the one thing one can do to make people happier is to free them from constraints, to get them more choices, so that they can improve their lot. There is a lot of literature saying that happiness doesn’t solely depend on income, but yet, I think one has got to believe that if people have more income, on the average they are freer to do what they want, and that does make them happier. I have thought that for a very long time. (Akerlof 2009a, 203)

Horn (2009, 203) replied: “It’s interesting that you should call this ‘libertarian’. I thought that libertarians were not so much focused on incomes, but rather on rights.” Akerlof responded:

Well, it’s libertarianism in a rather loose sense. ... But I do feel that it has this libertarian aspect, that is, that you aim at getting people freedoms. The maximum freedom that you can have, which included freedom from want, increases their welfare. This recognition has the spirit of economics, that is, it acknowledges that people are better off when they have more freedoms. I don’t want to say that I agree with every libertarian on every issue. But I think this is one of the fundamental aims of economists: you want to get people more choice. So I thought that getting people the income they need to live is a

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major goal. The one problem that attracted my interest early on was unemployment. (Akerlof 2009a, 203-204)

In a joint essay on changes in family structures following the sexual revolution, Akerlof and Yellen (1996) suggested that “policy measures to make fathers pay to support their out-of-wedlock children,” both to help the children and to “tax men for fathering such children,” will spread the consequences of parenthood more evenly between men and women. They also called for better access to contraceptive methods for women.

In a 2007 interview, Akerlof made a case for Keynesianism:

I began to study economics because I was particularly interested in macroeconomics—basically, the causes of unemployment. That has been the focus of most of the work I have done throughout my career. With this speech [Presidential address at the meetings of the American Economic Association], I wanted to present my vision of macro today. I also wanted to explain why we should give much more credit to an older style of macro that has always made common sense to me. That is basically the macroeconomics of Keynes. (Akerlof 2007, 5)

He continued:

By Keynesian economics I mean that the government should play a role in stabilizing the economy. This can be done through monetary policy, if monetary policy does not work, then it can also be done through fiscal policy. But it is a responsibility of national governments. (Akerlof 2007, 6)

Elsewhere, Akerlof emphasized the problem of joblessness: “I have always thought of unemployment for almost everything I have written. A person without a job loses not just his income but often the sense that he is fulfilling the duties expected of him as a human being” (quoted in Loungani 2011, 3).

Akerlof was a critic of the George W. Bush administration, saying it was “the worst government the US has ever had” (Akerlof 2003). He opposed the war in Iraq, criticized high deficits, and advocated a short-term tax cut for the poor (ibid.).

Akerlof has commented on the 2008 financial crisis, stating: “There was much greater need for regulation of financial markets” (Akerlof 2009b). In *Animal Spirits*, Akerlof and Robert J. Shiller (2009a) worry that recovery from the Great Recession will lead to the market becoming more free again (Uchitelle 2009).<sup>4</sup> To prevent this, and what they see as the likely results, they call for “animal spirits” to be “[t]empered by government” (ibid.). Akerlof and Shiller say of the crisis:

During the 1970s a new generation of economists arose. In their critique, called the New Classical Economics, they saw that the few animal spirits that remained in Keynesian thought were too insignificant to have any importance in the economy. They argued that the original Keynesian theory had not been watered down enough. In their view, now the centerpiece of modern macroeconomics, economists should not consider animal spirits at all. So, not without a little irony, the old pre-Keynesian classical economics, without involuntary unemployment, was rehabilitated. The animal spirits had been relegated to the dustbin of intellectual history.

This New Classical view of how the economy behaves was passed from the economists to the think tankers, policy elites, and public intellectuals, and finally to the mass media. It became a political mantra: “I am a believer in free markets.” The belief that government should not interfere with people in pursuit of their own self-interest has influenced national policies across the globe. In England it took the form of Thatcherism. In America it took the form of Reaganomics. And from the two Anglo-Saxon countries it has spread.

This permissive-parent view of government replaced the Keynesian happy home. Now, three decades after the elections of Margaret Thatcher and Ronald Reagan, we see the troubles it can spawn. No limits were set to the excesses of Wall Street. It got wildly drunk. And now the world must face the consequences. (Akerlof and Shiller 2009a, x-xi)

Akerlof and Shiller conclude *Animal Spirits* with the following:

Indeed, if we thought that people were totally rational, and that they acted almost entirely out of economic motives, we too would believe that government should play little role in the regulation of financial markets, and perhaps even in determining the level of aggregate demand.

But, on the contrary, all of those animal spirits tend to drive the economy sometimes one way and sometimes another. Without intervention by government the economy will suffer massive swings in employment. And financial markets will, from time to time, fall into chaos. (Akerlof and Shiller 2009a, 175)

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4. Arnold Kling (2009, 135) described *Animal Spirits* as an “assault on mainstream economics and an assault on the disposition towards free markets and minimal government.”

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In connection with their book, Akerlof and Shiller published an op-ed in the *Wall Street Journal* titled “Good Government and Animal Spirits,” saying:

The principal long-term result of the current financial crisis should be improved financial regulation. After the immediate crisis is over, we need to restructure our fragmented system. This process will take years to complete since, if properly done, it should get at the heart of the regulatory structure.

This is not as radical as it sounds, for while many observers equate U.S.-style capitalism with unconstrained free markets, the story is more complicated. Americans have long understood that for the economy to work well, government must play an important supporting role. They’ve also long understood the important role that self-regulatory organizations (SROs), such as trade associations and exchanges, play in cooperation with government regulation. (Akerlof and Shiller 2009b)

They continued:

[E]ntrepreneurs and companies do not just sell people what they really want. They also sell people what they think they want, and not infrequently what they think they want turns out to be snake oil. Especially in financial markets, this leads to excesses, and to bankruptcies that cause failures in the economy more generally. All of these processes are driven by stories. The stories that people tell to themselves—about themselves, about how others behave, and even about how the economy as a whole behaves—all influence what they do. These stories vary over time.

Such a world of animal spirits justifies the economic intervention of government. Its role is not to harness animal spirits but really to set them free, to allow them to be maximally creative. A brilliant player wants a referee, for only when the game has appropriate rules can he really show his talents. While the sports of baseball and football haven’t changed much in the last century, the economy has—and American financial regulation hasn’t had an overhaul in 70 years. The challenge for the Obama administration, along with the U.S. Congress and our SROs, is to invent a new and better American version of the capitalist game. (Akerlof and Shiller 2009b)

Akerlof has signed petitions opposing marijuana prohibition, opposing the Bush tax cuts, supporting the Federal Recovery Act, supporting the “Purple Health

Plan,” and endorsing John Kerry for president (Hedengren et al. 2010; Kotlikoff 2011). Akerlof was one of four Nobel economists to join an amicus brief in support of the section of the Patient Protection and Affordable Care Act that “requires, with certain exceptions, all Americans who can afford a minimum level of health insurance either purchase such insurance or pay a penalty to the United States Treasury” (Rosen et al. 2012, 1).

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## Maurice Allais

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Maurice Allais (1911–2010) was born in France to parents who owned a small retail business in Paris. In 1915, when Allais was only three, his father died while a prisoner of war in Germany. Allais would reflect: “My youth, indeed my entire life, was deeply marked by this, directly and indirectly” (Allais 1989).

Allais began his career in engineering. Following the Great Depression, however, he turned also to economics. Allais had visited the United States in 1933 after graduating from the École Polytechnique. He wrote about the experience:

In the summer of 1933 I had visited the United States, then in the grip of the Great Depression, a very astonishing phenomenon for which no generally acceptable explanation had been found. I had also been very close to the social unrest which had broken out in France following the elections of 1936.

What could be a better way of preparing for the aftermath of the war than to try to find a solution to the fundamental problem of any economy, namely *how to promote the greatest feasible economic efficiency while ensuring a distribution of income that would be generally acceptable.*

Thus, my vocation as an economist was not determined by my education, but by circumstances. Its purpose was to endeavor to lay the foundation on which an economic and social policy could be validly built. (Allais 1992, 234, emphasis in original)

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During World War II, Allais first was commander of an artillery unit, then returned to civilian work during the German occupation of France (Allais 1989). Allais said in his 1988 Nobel lecture: “In July 1940, after my demobilization, I resumed again my duties as an engineer in the State mining administration at Nantes, in the zone occupied by the German Army. But my pre-war concerns had completely changed. For me, with all the illusions of youth (I was only 29 at the time), it was clear that the best I could do was to contribute to prepare for the post-war period” (Allais 1992, 233-234).

Allais became a professor of economics at the Ecole Nationale Supérieure des Mines in 1944 and remained in that position thereafter (Allais 1989). After World War II, Allais’s work on capital and interest rates would assist French planners in developing long-term economic strategies (Telegraph 2010). Allais eventually won the Nobel Prize, in 1988, “for his pioneering contributions to the theory of markets and efficient utilization of resources.”

Allais attended the founding meeting of the Mont Pelerin Society in 1947. At the meeting the group worked on and presented a Statement of Aims, which was generally about the advancement of classical liberal scholarship and thought. In his history of the Society, R. M. Hartwell explains that Allais did not sign his name to the Statement:

Of all who attended the 1947 meeting, M. Allais alone refused to sign the Statement of Aims which was adopted by the Society as a guide to its activities. In his major theoretical treatise, he had demonstrated to his own satisfaction that the optimal interest rate in a specified sense was zero; at a zero interest rate, any asset yielding perpetual returns—a piece of land yielding one franc a year in rent—would have a present value of infinity. Hence, private ownership of assets yielding perpetual incomes, of which, like Henry George, he took land to be the prototype, was incompatible with achieving the social optimum. That is why he would not agree to private property in all assets. He wrote to Hayek 12 May 1947 that, while he was “tout en marquant son profond accord à la conception de la liberté économique et politique,” he believed that “la propriété perpétuelle collective du sol” was necessary—a belief quite incompatible with the Statement of Aims, even though he believed also that this was *not* incompatible with “la propriété privée des entreprises.” (Hartwell 1995, 42 n. 1)

A colleague of Allais, Thierry de Montbrial, reflected on Allais’s unique liberal disposition:

[Allais's] ideas are varied and not confined to the strict liberalism of which he is sometimes accused. His social philosophy is undeniable [*sic*] of the *libéral* type (in the French sense, i.e. that it favors both a free, decentralized society and a free-market economy) and, according to him, falls within the same lines of thought as Alexis de Tocqueville's, Leon Walras', Vilfredo Pareto's and John Maynard Keynes' views. But Allais' *libéralisme* is not to be interpreted as doing *laissez-faire, laissez-passer*. The cornerstone of his thinking is that free trade implies appropriate social and institutional organization, with "structural planning" (*Manifesto for a Free Society*, 1959). For example, he considers that completely free trade is only possible between sufficiently integrated countries. In particular, excessive exchanges [*sic*] rate variability and salary disparity between two countries are incompatible with free trade. Allais supports a unified Europe, but this will, in his eyes, require strong commitment and a single currency must be accepted. (Montbrial 1995, 54-55)

Allais felt strongly that "Liberalism must not be reduced to economic laissez-fairism" (Allais 2006/1999). In his Nobel Prize autobiography, Allais wrote, "My major conclusion was that both the economic and ethical objectives of our time can be reached at the same time only if the institutional framework within which the economy works is appropriately reformed, and I have tried to specify the principles for such a reform" (Allais 1989). He echoed and expanded on this theme just a year before his death, when he delivered an address at a UNESCO conference. He began:

During the last fifty years, all the research I have done, all the thoughts that events have inspired in me, all the experience I have gained, have continually reinforced in me the conviction that a society founded on the decentralization of decision-making, on the market economy and on private property is not the best form of society we could dream of in an ideal world in purely abstract terms, but a society which, in concrete terms of reality, both from the point of view of economic analysis and of past experiences, proves to be the only form of society which could best answer the fundamental problems of our time.

But although I have become more and more convinced over the years of the immense superiority of an economically liberal and humanist society, I have another conviction, just as strong, which is that today our society is under threat, particularly because of the ignorance of the fundamental principles that the setting up of a liberal

and humanist society involves. In fact, living together implies for the whole of society a deep consensus of what is essential. If this consensus does not exist, the creation of a humanist society seems to be compromised. (Allais 2006/1999)

Allais identified the threats to a “humanist society” as including “unwarranted earnings,” unemployment, insufficient social advancement, opposition to individuality, and instability. Most emphatically, “Extra-community immigration also undermines the very foundations of social cohesion, a major condition for the efficient and just functioning of the market economy.” Globalization, Allais believed, was “the major cause of massive unemployment and inequalities that continue to develop in most countries.” Thus, he saw protectionism as essential (Allais 2006/1999).

Allais held that, throughout his career, he had “endeavoured to rethink the role of economic liberty and of an economy of markets as regards the search for efficiency and the achievement of the ethical objectives of our time, and to contribute to a thorough study of the questions raised by the economic organisation of societies” (Allais 1989).

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# Kenneth J. Arrow

by Daniel B. Klein

Ross Starr begins his article on Kenneth Arrow (1921–) in *The New Palgrave Dictionary of Economics* by saying that he “is a legendary figure, with an enormous range of contributions to 20th-century economics.... His impact is suggested by the number of major ideas that bear his name: Arrow’s Theorem, the Arrow-Debreu model, the Arrow-Pratt index of risk aversion, and Arrow securities” (Starr 2008). Besides the four areas alluded to in the quotation from Starr, Arrow has been a leader in the economics of information. In 1972, at the age of 51 (still the youngest ever), Arrow shared the Nobel Prize in economics with John Hicks for their contributions to general economic equilibrium theory and welfare theory. But if the Nobel economics prize were given for specific accomplishments, and an individual could win repeatedly, Arrow would surely have several. It has been shown that Arrow is the economics laureate who has been most cited within the Nobel award lectures of the economics laureates (Skarbek 2009).

Kenneth Arrow was of the generation shaped by the Great Depression. Like many of them, he embraced socialism at an early age, and going forward his work was shaped by a deeply leftist sensibility. From several autobiographical reflections, it seems that over the decades Arrow’s thinking has continually moved from ideals he associates with socialism to a more pragmatic—or, perhaps, resigned—sense of reforming actually existing social democracy.

Arrow was born and educated in New York City, and his family struggled during the Great Depression. He attended City College in New York, which was free (Arrow 1992/1973). A mathematics major, he attempted to pursue a career as a high school teacher. When he found that market flooded, he went to Columbia University to study statistics and discovered the economics professor Harold Hotelling (Starr 2008). Taking Hotelling’s course on mathematical economics, Arrow “realized I had found my niche” (Arrow 1995a, 45). At Columbia, Arrow earned his M.A. in mathematics and entered the Ph.D. program in economics, but World War II put his studies on hold; from 1942–1946, he served as a weather officer in the U.S. Army Air Corps (Arrow 1992/1973). Returning to civilian life, Arrow continued his graduate work and in 1947 worked at the Cowles Commission in Chicago. During several summers, he worked at the RAND Corporation. Arrow completed his Ph.D. in 1951. In 1949, he joined the faculty at Stanford University, where he would stay for all but a decade of his career, that decade being spent at Harvard. Arrow was on the research staff of President John F. Kennedy’s Council of Economic Advisers.

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In a famous paper on healthcare, Arrow (1963) explored ways in which services, practices, and institutions do not obey certain models. The paper, published in the *American Economic Review*, has been significant in legitimating and authorizing the practice of elaborating how economic affairs in a particular industry or sector are therefore ‘imperfect’ and not ‘competitive,’ and constitute ‘failure.’ In more recent years, Arrow has treated such topics as malaria prevention (Arrow, Panosian, and Gelband 2004) and climate change (Arrow 2007) as examples of market failures. For an overview of Arrow’s astounding series of seminal works, dating especially from the early 1950s, see Starr’s fine entry in the *New Palgrave*.

Professor Arrow generously responded to our questionnaire. His response follows:

I have some trouble defining what is my “ideology,” and how is it manifest in my scholarly or other behavior. I have and have had a set of values. I don’t think they have changed in a fundamental sense, but the changing issues in society have certainly led to different emphases.

In some sense, underlying any ideology has been an epistemology, one which has emphasized the uncertainty of knowledge and the difficulties of communicating it. This has always inhibited any extreme commitment on my part to a set of values or to a policy; there is always something on the other side. It has led, in part, to a preference for well-formulated problems (this is a limitation, not a boast), where at least what I am saying is clear.

To the extent that I have strong moral commitments, they are freedom for all humans and a respect for the values and opinions of others. With regard to the first, under the heading of freedom, I include economic viability (income, in a modern economy). The freedom to make choices in a market economy demands the ability to choose jobs and goods. I therefore have a built-in belief that reducing income inequality is not in contradiction to economic freedom but part of it. More concretely I found race discrimination, perfectly open in my younger days, to be an evil even if grounded in widespread popular support.

I was rather precocious intellectually and lived in an era where good students were encouraged to accelerate. I graduated college before I was 19. My parents were very engaged in the news of the day and, in particular, political news, and current politics would be discussed at the dinner table, certainly from the time I was 10 or 11. They were centrists and became admirers of Franklin Roosevelt, my

mother very enthusiastically so, my father with his characteristic cynicism.

Living during the Great Depression, which affected us personally, I early regarded myself as a socialist (say from age 12 on). However, almost as soon as I thought about it, I found the Soviet Union to be a vicious tyranny, especially as manifested in the show trials (of the old Bolsheviks). These views remained about constant until my college graduation in 1940. When I started graduate study, I intended to become a statistician and enrolled at Columbia where Harold Hotelling taught. However, there was no department of statistics, so I had to enroll in Economics, Hotelling's department. He gave a course in mathematical economics, and this started the process by which my primary interests shifted towards economics proper. Hotelling himself was a socialist, though one who emphasized the role of the market even under socialism, so my previous views were reinforced and clarified. (I should note that Hotelling never attempted to influence anyone's views; I learned his views from his written work.) These certainly influenced my work (alone and with others) on general equilibrium as an ideal to be achieved by a mixture of private enterprise and public planning and regulation; much of this was embodied in my joint work with Leonid Hurwicz, collected in Arrow and Hurwicz, *Studies in Resource Allocation Processes*, Cambridge University Press, 1977.

After returning to graduate study from military service, I found a growing prosperity. My general views shifted to planning in mixed economies, such as seemed to be emerging in Europe. I gradually realized over the following decade that the European planning was largely illusory. On the other hand, the idea that the market could solve all problems seemed to me patently false on thoroughly sound neoclassical arguments. From a policy viewpoint, my attitude ("ideology" seems too grand a term) was essentially that of benefit-cost analysis. State measures could be and frequently were useful, but their outcomes had to be compared with the alternatives. No simple slogans could give useful answers. I tended thereafter to concentrate from the policy viewpoint on the role of public investment; a representative technical work is my book with Mordecai Kurz, *Public Investment, The Rate of Return, and Optimal Fiscal Policy*, Johns Hopkins, 1970. Two popular articles which give some idea of my point of view are, "A Cautious Case for Socialism," *Dissent*, Fall, 1978, pp. 472-80, and, "Two Cheers for Regulation," *Harper's*, 1981, #262, pp. 18-22 (I am not responsible for either title).

My research also tended to concentrate on well-defined specific issues, whether it was social choice, medical care, or inventory policy.

Certainly, my thinking has evolved by observation and analysis, as I hope it should have. But it has not been altered in its essence. (Arrow 2013)

Here I follow up on the two articles that Arrow cites, especially the 1978 article that appeared in *Dissent*, a journal of leftist thought and commentary.

“A Cautious Case for Socialism” is the text of Arrow’s April 1978 Lionel Trilling Seminar lecture at Columbia University. In his response to our questionnaire (and in Arrow 1995b), Arrow notes that he is not responsible for the article’s title. The piece, highly autobiographical, waffles between two overarching drifts: one, expressed by the title, is that of holding on to socialist ideology but proceeding cautiously; the other is to let go of socialist ideology and come round to a more practical outlook of accepting, if not celebrating, capitalism under social democracy, and managing the mixed economy. As I say, the piece waffles between the two. We will see that, three years later, in the 1981 piece, Arrow seems to be more settled on the practical outlook—and thereafter, it seems to me, he continues on that way.

The side of the article that seems to fit the title, “A Cautious Case for Socialism,” proceeds with autobiographical information about the young Arrow’s impressions and reflections on “the rottenness of the times,” “the system and its failure. They seemed obvious enough” (Arrow 1978, 472-473). He knew that “a social system, political or economic, however bad its consequences, will be replaced only if there is a vision of a better system. The idea of socialism was easily available. . . . Surely, a rationally organized, centrally coordinated economic system could avoid the instability of the capitalist economy and the terrible human and material cost of unemployment” (ibid., 473). He continues: “Further, there was such an economy. The Soviet Union was building and expanding, there was no unemployment, at a time when the advanced capitalist economies were spiraling downward or at best stagnating. The *New York Times* was the source of this favorable information, much more to be believed than the Communist party pamphlets passed out on the streets” (ibid.).

Arrow explains the development of his understanding of “capitalism”:

I was never a Marxist in any literal sense, unlike a great many of my fellow students at the City College, in New York. . . . Nevertheless, the insight Marxist theory gave into history and particularly as to political events was striking: the state as the executive committee of the bourgeoisie, the class interpretation of political and social conflicts,

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and the interpretation of war and imperialism as the conflict of competing national capitalist interests were illuminating and powerful. It appeared more profound than the alternative versions of the economic interpretation of history; they seemed to be mere muckraking, the behavior of venal individuals. Marxism put the system rather than the individual into the foreground. (Arrow 1978, 473-474)

The freedom of workers seemed to me much restricted. Strike-breaking by fairly direct and brutal methods, as well as more subtle forms of economic pressure, was a common event. Even apart from overt conflict, the regular operation of the factory appeared as a form of regimentation and a denial of individual freedom—an implication then widely accepted, expressed in such movies as Chaplin's *Modern Times* and Rene Clair's *A Nous La Liberté* and, more subtly and profoundly, in Lewis Mumford's *Technics and Civilisation*, then very famous and still worthy of reading. (ibid., 474)

Arrow describes his notion of “capitalism”:

[T]here was a strong antipathy to an economic and social system based on selfish and competing motivations. I eagerly sought confirmation in the works of contemporary anthropology, such as Margaret Mead's *Sex and Temperament in Three Primitive Societies*, for the proposition that cooperation was at least as natural as competition. (Arrow 1978, 475)

Arrow says his “underlying assumption was the common humanity of ruler and ruled; the appeals to cooperative and altruistic motives seemed to have at least some success as against the simply selfish exercise of power” (1978, 475).

Expressing his current (1978) attitudes, Arrow also describes his notion of “laissez-faire”:

The model *laissez-faire* world of total self-interest would not survive for ten minutes; its actual working depends upon an intricate network of reciprocal obligations, even among competing firms and individuals. But the capitalist system is structured so as to minimize cooperative endeavor. The worker is a factor of production, a purchased item, not part of a team. (Arrow 1978, 477)

Arrow's remarks, in my view, exemplify the deep-leftist mentality, combining the lurid “capitalism” and a mutually constitutive conclusion that community and

cooperation are most meaningfully found in the governmentalization of social affairs.

“As for inequality of income,” Arrow writes, “I took it for granted that it would be reduced under socialism by the abolition of the income category of profits” (1978, 475). He adds: “Many current thinkers object to distributive equality on principle, on the grounds that it contradicts freedom of property. This is a large subject; I simply state my conviction that property is itself a social contrivance and cannot be taken as an ultimate value” (ibid., 477). Whether distributive equality can be taken as an ultimate value is something that Arrow does not make clear.

As in his response to our questionnaire, Arrow is remarkably candid about how socialist ideology shaped his work in neoclassical economics:

I became seriously interested in the study of economics only after beginning graduate study around 1940. Needless to say, learning something of the workings of the economic system and of the logic of neoclassical economics had a considerable effect on my attitude toward socialism. ... My immediate reaction was to interpret neoclassical economic theory and particularly the then new and rapidly developing discipline of welfare economics as pointing to an ideal efficient economy rather than the actual one, marked both by massive unemployment and by monopolistic distortion. Socialism was the way in which the ideal market was to be achieved. This doctrine was held by many, including especially the professor here at Columbia to whom I owe so much, both intellectually and personally, Harold Hotelling. Graduate education in economics at Columbia at the time, just before our entrance into World War II, seemed curiously designed to emphasize the ideal nature of neoclassical theory. The dominating voices, Wesley Mitchell, J. M. Clark, and Arthur F. Burns, held that neoclassical theory had little descriptive value. Though Clark and Burns, at least, certainly had no support for socialism, their views, when taken into conjunction with the theorems of welfare economics, resonated with my conviction that socialism could yield a more efficient economy. (Arrow 1978, 476)

Arrow enlarges on his views of different systems, as seen at the time:

In the ideal theory of the competitive economy, market-clearing prices serve as the communication links that bring into coherence the widely dispersed knowledge about the needs and production possibilities of the members of the economy. In the absence of suitable markets, other

coordinating and communicating mechanisms are needed for efficiency. These come close to defining the socialist economy, although admittedly wide variations in the meaning of that expression are possible.

[... T]he existence of idle resources is a prime example of coordination failure. The experience of the Communist countries bears on this point. With all their difficulties and inefficiencies, and they are not few, recurrent or prolonged unemployment is not one. A graph of economic activity in the United States is, under the best of circumstances, jagged and spasmodic, that of the Soviet Union much smoother. Fluctuations there are, as there must be in any complex dynamic system. But the planning, however inept, serves to keep the basic resources and their uses in line.

The sophisticated antisocialist reply to this argument is not to deny it but to emphasize that a socialist system is not an ideal resource-allocating mechanism either. Much is made of the obvious inefficiencies of the Communist countries, though the Soviet growth rate and technical development has on occasion caused fear and trembling and overall still averages above the United States rate. As all too frequently happens in the social sciences, no clear-cut dominance pattern of efficiency can be found either way. All that can be said is that socialism is clearly a viable economic system, contrary to what many would have asserted in the not-too-distant past, and it does not release energies and productivity far beyond the capitalist norm. (Arrow 1978, 478)

Throughout “A Cautious Case for Socialism,” then, there is a side that holds on to deep-leftist thinking. Meanwhile, also running through the entire essay, is the side that says maybe it is time to stop holding on. In the first paragraph, Arrow writes: “There is an ancient warning: ‘Be careful what you dream of when young; your dream may come true!’” (1978, 472). After telling of his earliest years, Arrow writes: “From the perspective of greater education and experience and with 40 years of history, my understanding of the relation between these values and the desirability of socialism has altered. Many countervailing considerations have been raised by further analysis and knowledge of the facts” (ibid., 475). He explains how his study of neoclassical economics led his thinking to evolve:

[T]he development of Keynesian economics and, after the war, its gradually increasing application changed the nature of the efficiency discussion. In true Hegelian fashion, capitalist instability and the

socialist counterattack seemed to be synthesized: it seemed possible to have an economy that retained much of capitalist drive and initiative and yet gave room for the government to intervene to avoid at least the worst inefficiencies of unemployment and the idling of other resources. I accepted provisionally what seemed to be a widespread consensus in the euphoria of postwar economic growth. The state had an active role to play in maintaining effective demand and in dealing with the many imperfections of the market system revealed by theoretical welfare economics—the overcoming of market failures and monopoly and the realization of economies of scale. These interventions should take the form of relatively impersonal measures, taxes and expenditures, rather than detailed controls and direct regulation. The higher taxes meant that the government was automatically engaged in redistributing, and some of us felt that it should go much further. (Arrow 1978, 476)

But Arrow makes clear that he likes the idea of a democratic socialism:

I have spoken of a provisional acceptance. I still felt it important to explore more deeply the possibility that socialism was a superior possibility. I was more aware of the complexities of operation of a socialist system and sought to develop more deeply the theory of such a system. I also sought to explore more fully the criteria for a democratic social organization. (Arrow 1978, 476-477)

Arrow explains his thinking: “So long as the state power can be democratically run, much of this distortion of the democratic process should be minimized under socialism” (1978, 479). But he then turns to the premise—of state power being democratically run. He says that Joseph Schumpeter and Friedrich Hayek have a good point that state power is a threat to democracy. He makes some counterarguments and then concludes that issue as follows:

There can be no complete conviction on this score until we can observe a viable democratic socialist society. But we certainly need not fear that gradual moves toward increasing government intervention or other forms of social experimentation will lead to an irreversible slide to “serfdom.” (Arrow 1978, 480)

Arrow then concludes “A Cautious Case for Socialism” with a final paragraph that plainly confesses his waffling between two different perspectives throughout the lecture:

It would be a pleasure to end this lecture with a rousing affirmation one way or the other. But as T. S. Eliot told us, that is not “how the world will end.” Experiment *is* perilous, but it is not given to us to refrain from the attempt. (Arrow 1978, 480)

Before we turn to the other piece that Arrow points to in his questionnaire response, note that as late as in 1974, Arrow expressed hope that new technologies would deliver the long-sought means needed for national economic planning. He wrote: “Indeed, with the development of mathematical programming and high-speed computers, the centralized alternative no longer appears preposterous. After all, it would appear that one could mimic the workings of a decentralized system by an appropriately chosen centralized algorithm” (Arrow 1974, 5).

Three years after “A Cautious Case for Socialism,” Arrow published in *Harper’s* magazine the other piece pointed to, “Two Cheers for Government Regulation” (Arrow 1981). The piece would seem to demonstrate that Arrow had let go of a deep-left selfhood. The piece engages the call of the day, the call for reform in classical liberal directions (which, in the piece, he associates especially with Milton Friedman and Ronald Reagan), and in a respectful way. He says the trend has much merit. But, he says, by and large, the status quo is justifiable, and government’s role should be augmented about as much as it should be reduced. The following quotations express the overarching attitude:

I do not agree that there is any reason to reduce the scope of government activity within the foreseeable future if our aim is a better economic, social, and physical life. ... Like political democracy, to which it is so closely linked, the mixed economy has much to answer for; it is merely less bad than its alternatives. (Arrow 1981, 19)

The endurance of the social order, the sense that we are all members of one another, is vital to the meaning of civilization. Such a notion is essential to the free enterprise system itself, which cannot flourish without a social structure. (ibid., 20)

[Social Security’s] financing may indeed create serious (though by no means insurmountable) problems in the future, as the percentage of retired workers rises. A modest raising of the retirement age, fully justified by the American people’s improved health, would solve them. ... [Studies show] that the anti-poverty programs of the 1960s and the social security programs as they have evolved have in fact been very successful, and repudiation of them does not seem called for. (ibid., 21)

There is no denying that these criticisms have some truth in them. The market, when it works, creates more pressure for efficiency, for innovation, and for the best use of technology for the desires of users. But most of what the government does is beyond the province of private business. (ibid., 22)

Let me repeat: I favor decontrolling oil prices. ... This story is designed to be evenhanded, but it shows that the government's role has never been negligible, although it has probably been bad more often than good. ... As I have repeatedly noted, allocation through prices is more efficient, and takes better account of individual circumstances, than does regulation. When the government does intervene, it can use pricelike mechanisms. ... The way the government intervenes in the economy has changed and should continue to change. Old functions become useless and pernicious, new needs emerge. But the general level of government intervention is likely to remain basically unchanged for the next decade, and it is in the general interest that it should do so. (ibid., 22)

It seems fair to say that Arrow, going forward from 1981, grows more accepting of the status quo mixed economy, showing support for policy positions like one would expect from an interventionist Democratic economist. A 1995 interview in *The Region*, published by the Minneapolis Fed, contains some interesting material:

**Arrow:** I think on the efficiency level, not only the distribution level, capitalism is a flawed system. It probably has the same virtues as Churchill attributed to democracy: It's the worst system except for any other. And I think that's right, but it cannot be thought that some unmitigated belief in free markets is a cure even from the efficiency point of view. ...

**Arrow:** ... The intrinsic social structure, the family structure and so forth, is certainly in a very bad state. And I think that this is showing up in productivity. I think part of the reason, and I can't prove this, we're seeing a decline in some places is the breakup of the family, which is partly the result of an extreme form of individualism.

**Region:** Do you feel that intervention on the part of the state would improve these matters? Education? Family?

**Arrow:** Education certainly. Education is still, in spite of private education, a state matter. Family is a difficult matter. I must admit I do

not know that the state can intervene successfully in a family. It's a fact that everything is connected with the individualist temperament, the kind of economic environment which stresses the individual, but this is not directly the result of a state policy, nor do I see any good way by which the state could intervene except in some marginal ways. ...

**Region:** Do you think that there is a role for regulation in policing such markets [that is, derivatives markets]?

**Arrow:** You'd have to have the standard sort of rules—essentially revelation principles. I am not really inclined to think there is any very effective regulation of the derivative securities markets that would be useful. People who go into it essentially ought to know what risks they're taking and I don't see any useful regulation. There is a bit of a problem with the match between derivative securities markets and the primary markets. We have long ago instituted principles, essentially high margin requirements, to prevent certain instabilities in the stock market, and I think they're basically correct. ...

**Region:** What would be the key features of a [healthcare] plan that you would propose, if given the opportunity?

**Arrow:** I think we need basically a single-payer system, that is a single-payer system for basic benefits. I think there's no way, and nor is it desirable, to prevent people from buying additional coverage. The financing, as is known already from Medicare and certainly from Social Security payments from a centralized system, can be done much more cheaply than when you have many competitive insurance plans. The reimbursement schedules become very costly. The cost of administering the present plans is large and there are big economies of scale.

Also, but more basic, issues of adverse selection disappear with a single-payer plan. If everybody's covered, there's no way of cherry picking, having plans that appeal to only particular groups, with all the distortions that accompany them. There is a possibility, and I think it's compatible to that plan to try to administer it through a competitive arrangement of one kind or another, that people can have choices of plans and compete where the reimbursement schedules are prearranged, and they can eventually get reductions in their premiums by choosing HMOs that are competitive. I think the principle of competitive supply as opposed to competitive financing is going to be a valuable one. ...

**Region:** Has the profession of economics changed much since you first started?

**Arrow:** ... The '50s was a very exciting period, probably because there were fewer of us and communication was a lot easier. I corresponded with Leo Hurwicz here at Minneapolis, for example. Part of it was we had all gone through the Cowles Commission in Chicago together and felt persecuted.

**Region:** Persecuted? Why?

**Arrow:** Some people at the University of Chicago thought this was all wild stuff. Milton Friedman was very much against it.

**Region:** Was very much against the Cowles Commission?

**Arrow:** We felt sort of bunched together. But we were kind of feared, too. It was a funny kind of being persecuted. We were persecuted, but we were taken seriously, even when we were just this little group, five or six people at Chicago.

**Region:** Who were the five or six?

**Arrow:** Well, of course, they rotated. There was Jacob Marschak, who was probably the most leading, Tjalling Koopmans, Lawrence Klein, Leo Hurwicz, and the statisticians—Theodore Anderson, Herman Rubin and Don Patinkin. I'm sure I'm forgetting somebody.

**Region:** Sounds like quite a group.

**Arrow:** Franco Modigliani spent a year there. He was more of a visitor. It was quite a group. And Gerard Debreu was later. I had left before he came. (Arrow 1995b)

Arrow has lent his name to numerous petitions: in favor of allowing prediction markets, opposing the Bush tax cuts, supporting an increase in the minimum wage, supporting augmentation of union privileges (“Employee Free Choice Act”), supporting government intervention to promote biofuels, supporting government-oriented healthcare, supporting John Kerry for president, supporting the individual mandate of the Affordable Care Act, and supporting the INFORM ACT (Hedengren et al. 2010; Pollack 2013; Kotlikoff 2013). On climate change, he advocates substantial reductions in carbon dioxide emissions (Arrow 2007). Arrow was one of four Nobel-winning economists to join an amicus brief in support of the section of the Patient Protection and Affordable Care Act that “requires, with certain exceptions, all Americans who can afford a minimum level of health insurance either purchase such insurance or pay a penalty to the United States Treasury” (Rosen et al. 2012, 1). Arrow responded to an online questionnaire about the Food and Drug Administration; he strongly supported the status-quo policy of “pre-market approval” (that is, having all new drugs and devices under a ban until individually permitted by the FDA), and he opposed the liberalizing reforms proposed by the questionnaire (Briggeman et al. 2010, A3-A6).

People are able to learn from Professor Arrow's selfhood and its evolution because he has generously disclosed it with candor and openness.

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## Robert J. Aumann

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Robert Aumann (1930–) was born in Germany. As things got worse for Jews in Germany in the 1930s, the Aumann family emigrated to New York. Aumann recalled:

I was born in 1930 in Frankfurt, Germany, to an orthodox Jewish family. My father was a wholesale textile merchant, rather well to do. We got away in 1938. Actually we had planned to leave already when Hitler came to power in 1933, but for one reason or another the emigration was cancelled and people convinced my parents that it wasn't so bad; it will be okay, this thing will blow over. The German people will not allow such a madman to take over, etc., etc. A well-known story. But it illustrates that when one is in the middle of things it is very, very difficult to see the future. Things seem clear in hindsight, but in the middle of the crisis they are very murky. (Aumann 2005, 708)

He continued:

We left Germany, and made our way to the United States; we got an immigration visa with some difficulty. In this passage, my parents lost all their money. They had to work extremely hard in the United States

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to make ends meet, but nevertheless they gave their two children, my brother and myself, a good Jewish and a good secular education. (Aumann 2005, 709)

Aumann attended Rabbi Jacob Joseph School in New York City where he became acquainted with geometry, theorems, and proofs and decided to pursue mathematical studies over Talmudic studies (Aumann 2005, 685-686). He earned his bachelor's degree from City College of New York. He went on to the Massachusetts Institute of Technology for his Ph.D. in algebraic topology in 1955. After working as a strategic consultant and two years as a post-doc at Princeton University, Aumann went to the new state of Israel in 1956 to teach at Hebrew University in Jerusalem, where he has been for the balance of his career (Aumann 2005, 688; Hart 2006, 209).

He shared the Nobel Prize with Thomas Schelling “for having enhanced our understanding of conflict and cooperation through game-theory analysis.” The thesis of the paper most strongly cited for Aumann’s award is “the strong equilibrium payoffs of a repeated game coincide with the core (more precisely,  $\beta$ -core) payoffs in the one-shot game” (Aumann 2006, on Aumann 1959); the idea is that cooperative outcomes can be sustained in games with repeated play.

Aumann recalls how he got his start in game theory:

After completing the Ph.D., I went to work for an Operations Research consulting outfit ... [that] did highly practical consulting. One of the problems that I was assigned had to do with defending a city from attack by a squadron of aircraft, a few of which are carrying nuclear weapons, but most of which are decoys. At MIT I had met John Nash...and had heard a little about game theory from him. At the time it didn't interest me very much, but when I was assigned the problem about the decoys, I remembered the conversations with Nash, and figured that game theory had to be the right tool to attack this problem. So I studied some game theory—just enough for this problem—and then the subject started attracting me in its own right. The rest is history, as the saying goes. (Aumann 2006)

Abraham Neyman states that Aumann’s work went far beyond game theory. Aumann researched a wide variety of topics, and his work “promotes a unified view of the very wide domain of rational behaviour, a domain that encompasses areas of many apparently disparate disciplines, like economics, political science, biology, psychology, mathematics, philosophy, computer science, law, and statistics.

Aumann's research is characterized by an unusual combination of breadth and depth" (Neyman 2008).

After Aumann was awarded the Nobel Prize in 2005, the *Jerusalem Post* ran an article with the sub-headline: "An Orthodox Jew with right-wing politics, Robert Aumann is a controversial Nobel prize-winner" (Krieger 2005). Aumann had been "a long-time member" of Professors for a Strong Israel (Breiman 2005), a Zionist organization. Aumann has been quoted as saying "I'm a Zionist; it's very simple" (Krieger 2005). "To some extent, my political position is informed by my scientific work. ... There are other things, maybe deeper...than my way of making a living, that informs [*sic*] my political beliefs" (ibid.).

In an interview, Sergiu Hart asked Aumann about judicial discretion and restraint. Aumann said:

In Israel it is conceded all around that the courts, and specifically the Supreme Court, are extremely activist, much more so than on the Continent or even in the United States. In fact, the chief justice of the Israeli Supreme Court, Aharon Barak, and I were once both present at a lecture where the speaker claimed that the Supreme Court justifiably takes on legislative functions, that it is a legislative body as well as a judicial body. Afterwards, I expressed to Mr. Barak my amazement at this pronouncement. He said, what's wrong with it? The lecturer is perfectly right. We are like the Sages of the Talmud, who also took on legislative as well as judicial functions. (Aumann 2005, 732)

Aumann continued:

There are two major problems with judicial activism. One is that the judiciary is the least democratically constituted body in the government. In Israel, it is to a large extent a self-perpetuating body. Three of the nine members of the committee that appoints judges are themselves Supreme Court judges. Others are members of the bar who are strongly influenced by judges. A minority, only four out of the nine, are elected people—members of the Knesset. Moreover, there are various ways in which this committee works to overcome the influence of the elected representatives. For example, the Supreme Court judges on the committee always vote as a bloc, which greatly increases their power, as we know from Shapley value analyses.

In short, the way that the judiciary is constituted is very far from democratic. Therefore, to have the judiciary act in a legislative role is in violation of the principles of democracy. The principles of democracy

are well based in game-theoretic considerations; see, for example, my paper with Kurz called “Power and Taxes” [(1977)], which discusses the relation between power and democracy. In order that no one group should usurp the political power in the country, and also the physical wealth of the country, it is important to spread power evenly and thinly. Whereas I do not cast any aspersions now on the basic honesty of the judges of the Israeli Supreme Court, nevertheless, an institution where so much power is concentrated in the hands of so few undemocratically selected people is a great danger. (Aumann 2005, 732)

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## Gary S. Becker

by Daniel B. Klein and Ryan Daza

Gary Becker (1930–) won the Nobel Prize in Economics in 1992 for expanding microeconomic analysis to non-market behavior such as discrimination, human capital, the family, demography, criminology, and addictive behavior.

Becker was born in a coal mining town in eastern Pennsylvania, but the family moved to Brooklyn when Becker was four or five years old. Becker's parents had only received an 8th grade education. Becker reflected: "There were only a few books in our house, but my father kept up with the political and financial news, and my older sister read a lot. After my father lost most of his sight, I had the task of reading him stock quotations and other reports on financial developments. Perhaps that stimulated my interest in economics, although I was rather bored by it" (Becker 1993).

Becker says:

We had many lively discussions in the house about politics and justice. I believe this does help explain why by the time I finished high school, my interest in mathematics was beginning to compete with a desire to do something useful for society. These two interests came together during my freshman year at Princeton, when I accidentally took a course in economics, and was greatly attracted by the mathematical rigor of a subject that dealt with social organization. (Becker 1993)

In a 2009 interview by Karen Horn, Becker says that in high school, besides a strong interest in mathematics, around the age of 16 he developed an interest in "social questions" and economics (Becker 2009a, 137-138). Horn asks about the combination of interests, mathematics and social philosophy, and Becker responds:

In the beginning, these had been separate interests. But then, in the first course I took in economics as a freshman at Princeton, we had a textbook—and that was Paul Samuelson's. It was fascinating. What impressed me about that famous textbook was that in the last quarter of that book...he had a mathematical formulation of economics. That was the part of the whole course that really attracted me the most. To me the question was how I could use mathematics—which I liked and was pretty good at—to discuss social questions. So Samuelson's book actually built the bridge. (Becker 2009a, 138)

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Horn (2009, 146) asks, “How did your political persuasions develop? Have you always sided with the market—or did you start out as a socialist like almost every young person?” Becker responds:

I was a socialist, that’s true. Even my father, although he was a pretty successful businessman, strongly supported interventionist-type candidates. . . . But what really influenced me and pulled me away from socialism were essentially two things: Milton Friedman and economics. Studying economics, at the end of my sophomore year at Princeton, I remember I debated somebody about markets versus socialism. And I was on the market side. I had already shifted away from socialism. Entering Princeton, I was a socialist. Two years or so later I was no longer a socialist. Three years later, I decided to go to Chicago. I still had an uneasy feeling. Even though I had the basic principles why I should lean in that direction, I still was missing the theory. I then got that at Chicago. (Becker 2009a, 146-147)

Becker tells Horn that, at Princeton, the professor who influenced him most was Jacob Viner (who had been at Chicago). Becker says that during his undergraduate days, “Milton Friedman from Chicago had come to speak at Princeton once, but I wasn’t that impressed by his talk. Everything just seemed too simple” (Becker 2009a, 140). Subsequently, however, after entering graduate studies at Chicago, Becker’s attitude toward Friedman changed greatly, as he tells Horn: “Certainly Milton Friedman had a great influence on me here. He was by far the greatest living teacher I have ever had. He really opened my eyes to economics as a powerful engine of analysis. Milton Friedman was just number one. He was a great man” (ibid., 141).

In his Nobel autobiography, Becker stated: “My first encounter in 1951 with Milton Friedman’s course on microeconomics renewed my excitement about economics. He emphasized that economic theory was not a game played by clever academicians, but was a powerful tool to analyze the real world. His course was filled with insights both into the structure of economic theory and its application to practical and significant questions. That course and subsequent contacts with Friedman had a profound effect on the direction taken by my research” (Becker 1993).

Further, in discussing his rational-choice approach to what were at the time unconventional topics, such as discrimination, human capital, and later the family and crime, he says that Friedman was among those who always encouraged him: “Milton Friedman and H. Gregg Lewis were the people I interacted the most with. They were both on my committee. Milton Friedman—you know, in everything

he did, he was just magnificent. He gave great lectures. He was the dominant catalyst in the group” (Becker 2009a, 141). Then, in discussing his first post as assistant professor at Chicago and his move to Columbia to teach, Becker says: “Milton Friedman was great, but he was just such a dominant intellectual influence. I wanted to be on my own. So I decided to move east” (ibid., 143).

After twelve years at Columbia (and NBER), Becker moved back to Chicago:

In 1970, I returned to Chicago, and found the atmosphere there very stimulating. The department was still powerful, especially after it had added George Stigler and Harry Johnson. Stigler and I soon became close friends, and he had a very large effect on my subsequent intellectual development. We wrote two influential papers together: a controversial one on the stability of tastes, and an early treatment of the [principal]-agent problem. Stigler also renewed my interest in the economics of politics; I had published a short paper on this subject in 1958. In the 1980s I published two articles that developed a theoretical model of the role of special interest groups in the political process. (Becker 1993)

In 1985 Becker took up writing a monthly column for *BusinessWeek* magazine, and he continued to do so through 2004:

It was a wise decision, for I was forced to learn how to write about economic and social issues without using technical jargon, and in about 800 words per column. Doing this has enormously improved my capacity to discuss important subjects briefly and in simple language. The pressure of having to do a column every month also makes me stay abreast of many subjects.... (Becker 1993)

In his entry on Becker in *The New Palgrave Dictionary of Economics*, Casey Mulligan describes the precedent that Milton Friedman has set in taking part in public discourse, and writes: “If Gary continued that tradition, as with his *BusinessWeek* column and Internet blog, he did so with much less vigour. One of Chicago’s important influences on Gary came from George Stigler, who often viewed public policies as the rational choices of politicians and the people who can influence them” (Mulligan 2008).

Although it is fair to say that Becker’s popular writing, notably in the *BusinessWeek* column and then the Becker-Posner blog ([link](#)), has been less vigorous than Milton Friedman’s, still the vigor has been exceptional, even valiant, at least to a classical liberal spectator.

In the 1997 book *The Economics of Life*, 138 of the *BusinessWeek* articles are collected. Although the articles had appeared in *BusinessWeek* under Becker's name only, in the book they are presented as the joint work of Becker and his wife Guity Nashat Becker. The book opens with an interesting joint autobiographical essay. When referring to one of themselves individually, they write Gary or Guity. They explain that the *BusinessWeek* offer to Gary was surprising "because he had never before written a single word for newspapers or other mass circulation periodicals" (Becker and Becker 1997, 1). While considering the offer, Gary consulted his friends, who encouraged him. Moreover, "Gary also consulted his wife Guity—an associate professor of history at the University of Illinois at Chicago—and she had the greatest influence on his decision. She believed the columns would provide an excellent vehicle for influencing government policy as well as for communicating his ideas to a much wider audience. And to ease Gary's fears, Guity promised that she would read drafts of the columns and offer suggestions to help make them more effective" (ibid, 2). They then explain the presentation of the collection as coauthored: "Guity has in fact read several drafts of every column, and she has been his severest critic. She has also proposed many topics, especially those dealing with contemporary issues of public policy. She has earned her co-authorship of this book. Although the columns were published under Gary's name, they would likely not have been written without Guity's encouragement, criticism, and suggestions" (ibid.).<sup>5</sup>

In the opening essay, in a section entitled, "Are We Liberals or Conservatives?," Becker and Becker explain themselves:

We do support the case for individual freedom and private enterprise economies made by Adam Smith, David Hume, and other eighteenth and nineteenth century thinkers.... Therefore, we are liberals in this classical or European sense, and we prefer a decentralized economic, political, and social milieu that allows freedom of choice as long as one person's freedom does not impose clear and sizable harm on others. Such liberals are not conservative in the traditional meaning of wanting to preserve the status quo. Although classical liberals recognize that what has survived is often functional and contributes to social welfare, they also realize that some hallowed customs and traditions in law, politics, and the economy have survived because of the influence of powerful interest groups that orient public policy in their own favor. ... We do not closely identify with any political party in the United

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5. Guity Nashat Becker's partnership with her husband brings to mind Rose D. Friedman's with hers (see Blundell 2013).

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States since none takes a consistent position on whether individuals respond to incentives and know their own interests better than politicians and bureaucrats. (Becker and Becker 1997, 5)

The Beckers describe some of the topics treated by the columns collected in *The Economics of Life*:

[T]he columns collected in this book...are unambiguously opposed to big government and central planning, illegal immigration, employment quotas and set-asides for minorities, union exemption from antitrust laws, highly subsidized tuition for middle-class and rich students at state universities, the NCAA restrictions on pay to college athletes, term limits for members of Congress, ESOPs and other subsidies to employee ownership of companies, and tariffs and quotas.... Among other things, they [the columns] advocate selling the right to immigrate legally, extensive privatization of public enterprises, introduction of school vouchers primarily to poor children, legalizing many drugs, substituting an individual-account system for pay-as-you-go social security, moving to fully voluntary armed forces, cracking down on fathers who fail to pay child support, enforcing marriage contracts and prenuptial agreements, encouraging free competition among religious sects and denominations, amending the Constitution so that federal judges would serve renewable terms rather than for life, instituting strong punishment for serious crimes, especially when committed with guns, and changing welfare to concentrate on helping children rather than mothers and social workers. (Becker and Becker 1997, 6)

After *The Economics of Life* appeared in 1997, Gary Becker continued to write his monthly column, billed as sole author, until July 2004. In his final column, titled “A 19-Year Dialogue on the Power of Incentives,” he wrote:

Along with many others of my generation, I was a socialist when I started my university studies. But my first few economics courses taught me the power of competition, markets, and incentives, and I quickly became a classical liberal. That means someone who believes in the power of individual responsibility, a market economy, and a crucial but limited role of government. I have not hesitated to express these beliefs in evaluating policies of both Democratic and Republican Administrations. I understand that politics often trumps economics, but it is a mistake to excuse misguided policies because one generally sympathizes with a particular party or person. (Becker 2004)

In a 2002 interview, Becker delivered his view of social security:

I do believe individuals should be given most of the discretion over their money, and I believe very much in a privatized system. ... The present Social Security system is a mixture of an annuity and redistribution system. The redistribution system discourages many people from working at older ages when they are healthy enough and would want to continue working. Social security gives them an incentive not to work because they are taxed so heavily on their earnings. (Becker 2002, 21)

He concluded:

I also believe in a minimum standard of living for older members of our society. So if older persons, for one reason or another, did not save much, they would get a minimum level of say, Medicare and retirement income. That would be part of the welfare system for low-income people. (Becker 2002, 21)

In a 2009 *Wall Street Journal* interview, Becker squares the blame on the slow market recovery on government policies (Becker 2009b). Responding to his colleague Richard Posner's call for more regulation and putting the Chicago School into question over the 2008 recession, Becker wrote:

What I have always learned to be the Chicago view, and taught to be the Chicago view, is that free markets do a good job. They are not perfect, but governments do a worse job. Again, in some cases we need government. It is not an anarchistic position. But in general governments do a worse job. I haven't seen any reason to change that other than, yes, we've seen another example where free markets didn't do a good job: they did a bad job. But to me there is no evidence the government did a good job either, leading up to or during the process. (Becker 2010a)

In 2010, Becker spoke against the Patient Protection and Affordable Care Act, stating: "Health care in the United States is pretty good, but it does have a number of weaknesses. This bill doesn't address them. It adds taxation and regulation. It's going to increase health costs—not contain them" (Becker 2010b).

Becker has lent his name to petitions opposing John Kerry for president in 2004, supporting John McCain in 2008, and supporting Mitt Romney in 2012.

He has remained active in blogging and in occasional popular writing, such as continuing his call for drug liberalization (Becker and Murphy 2013).

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# James M. Buchanan Jr.

by Niclas Berggren<sup>6</sup>

James M. Buchanan (1919–2013) was born in rural Tennessee under rather simple circumstances: “It was a very poor life,” he says (Buchanan 2009, 91). Still, he ended up, in 1986, as a recipient of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. The Prize was awarded “for his development of the contractual and constitutional bases for the theory of economic and political decision-making.”

Buchanan earned his Ph.D. in economics from the University of Chicago in 1948 and was thereafter a professor at the University of Tennessee, Florida State University, the University of Virginia, UCLA, Virginia Polytechnic Institute, and George Mason University. In spite of his academic accomplishments, Buchanan felt himself to be apart from an established elite—academic, intellectual or political—and he even regarded that elite with suspicion. The attitude can be connected to Buchanan’s ideological convictions and how these changed over the course of his lifetime.

In brief, Buchanan was an ideological migrant: he started out having socialist proclivities but abandoned these in his late twenties in favor of a classical liberal outlook, an outlook he retained for the remainder of his life.

There must be an asymmetry in any ideological profile of Buchanan, since there is more documentation about his post-socialist views than about those of his early years. Even though we know little about them, it seems fair to say that the youthful convictions were less systematic in character and less developed analytically. Still, they were there, and, I believe, the underlying motivation for them remained in place also for the liberal Buchanan. That motivation can perhaps best be described as *a strong dislike of privilege*. Here is a passage about his experience in the navy:

Anyway, during the first month, I experienced discrimination, and it just got me all upset. If there is one thing I can’t stand—and that’s central—it’s when somebody is treated unfairly, whether it’s somebody else or whether it’s me. A disproportionate number of us were from the South and the West, as opposed to the upper East. I experienced overt discrimination for being a non-Easterner, a non-establishmentarian. In the whole group of 600 boys, there were only

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6. Research Institute of Industrial Economics, 102 15 Stockholm, Sweden; University of Economics in Prague, 130 67 Prague 3, Czech Republic.

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about twenty who were graduates of Yale, Harvard, Princeton—all Ivy League. By the end of this first boot camp period, they had to select midshipman officers. Out of the 20 boys from the establishment universities, 12 or 13 were picked, against a background of a total of 600. It was overtly discriminatory towards those of us who were not members of the establishment. That made me into a flaming communist. I would have signed up immediately to the Communist Party had a recruiter come along. I had already had strong left-wing socialist leanings, but now it was stronger than ever. I think I felt this stronger than anybody else. Even today, there is a residue still there. I don't ever get rid of that. Anyway, no recruiter came along, and I didn't sign my name on any communist manifest. But I would have! (Buchanan 2009, 92-93)

The dislike of unfair treatment is perfectly clear from this text (cf. Buchanan 2007, 49-50); it also indicates how the sentiment channeled Buchanan's political tendencies in a more radical direction. Why was he initially a socialist?

[Buchanan:] It was fundamentally due to a populist background. I grew up with all those pamphlets from the time in the 1890s when several American states went Populist—pamphlets about the Wall Street Barons and the [Robber] Barons and all this stuff. And of course, the Democrats ran the South at that time; it was a one-party system. Then I got interested in economics, and everybody in my peer group was a socialist. We didn't get the right picture about what was going on. Russia was an ideal for us all. I even started learning Russian.

[interviewer:] Wow! But did you trust the government generally?

[Buchanan:] At that time I still implicitly held to this image that somehow the state was benevolent. I didn't start raising those kinds of questions until much later. (Buchanan 2009, 93)

Buchanan was asked in an interview whether he, as a socialist youngster, thought government ought to have a big role in running things. He replied that his attitude had been:

Not so much pro-government as it was anti big business, anti Wall Street, anti the tycoons, anti the Rockefellers, anti the rich. (quoted in Henderson 1999, 5)

This reinforces that his socialism was, indeed, of a more populist kind. But there is, to my knowledge, no more precise information about the young Buchanan's ideological orientation, such as what socialist policies he might have advocated.

After Buchanan's service in the navy, he began thinking about pursuing graduate studies and ended up in Chicago on the advice of a professor he met as an undergraduate. He did so without knowing much about the Department of Economics: "Had I known that it was a market-oriented department, I would probably have gone somewhere else" (Buchanan 2009, 97).

But Buchanan did go to the University of Chicago, where he met economists like Frank Knight, Jacob Viner, Theodore Schultz and, at the very end, Milton Friedman. Of these, Knight made the biggest impression on him (see Buchanan 2001a; 2001b). And an ideological change was about to take place:

[Interviewer:] And that was the end of your socialist inclinations, I guess. They must have turned you around?

[Buchanan:] And in a hurry. We were about 30 people in Knight's course in price theory. Fifteen switched over completely within six to eight weeks, and 15 stayed exactly the way they were. They were socialist to start with and they were socialist when they came out. There was no distinction in the grades, it was no question of who was intelligent and who wasn't, it was rather that, somehow or another, you were preconditioned. And for some reason, I was preconditioned to buy into the workings of the market—which was something I had not really understood at all until I took Knight's course. (Buchanan 2009, 97)

Buchanan says that after those first weeks in Knight's course, he "had been converted into a zealous advocate of the market order" (Buchanan 1999, 15; cf. Buchanan 2001c, 165-166).

Buchanan's ideological shift shows how a change in knowledge and understanding can bring about a change in political opinions. If we regard such opinions as a function of two separate factors, beliefs about the world and values, then ideological shifts can come about either if a person gains new knowledge or if the values change. In Buchanan's case, what I take to be the motivating value, fairness in a sense that is against privilege, remained in place, but at Chicago, he got new knowledge and a new understanding, which transformed him politically. As Buchanan (2001d, 5) described his pre-Chicago thinking: "I remained blissfully ignorant of the coordinating properties of a decentralized market process, an ignorance that made me vulnerable to quasi-Marxist arguments and explanations about economic history and economic reality." Clearly, the ideological change

occurred as a result of new knowledge and a new understanding of how a market order functions.

Now, we have established that Buchanan had early socialist, at times maybe even communist, convictions, but that he changed into a pro-market economist while pursuing his Ph.D. in Chicago. What, more exactly, did he turn into? The rubric he himself preferred was “classical liberal,” not to be confused with “liberal” in the everyday American meaning of the term or even with “conservative” (Buchanan 2005a).<sup>7</sup> And Buchanan was perhaps not really a “libertarian” either—he did not embrace natural rights, or similar constructs, as the basis for his political reasoning, and he did not in any strict way advocate a minimal state (and much less anarchy, in spite of having an intuitive appreciation of it).<sup>8</sup>

In his scholarly work, Buchanan developed a contractarian constitutionalism (see Buchanan and Tullock 1962; Brennan and Buchanan 1985; Buchanan 1987) that, to a large extent, defined his liberalism. The contractarian approach assumes that people desire a political order in which collective decisions can be made, and it insists that legitimacy in establishing constitutions (the political institutions within which collective decision-making takes place) derives from unanimous consent, although that consent might be only symbolic. Here we see Buchanan’s strong passion for respecting the individual and for treating everybody equally: no arrangement, collective or otherwise, shall be deemed legitimate unless all those who partake in it have agreed to it.

Note, however, that this criterion of unanimous agreement applies to the constitutional level. Buchanan writes:

The central contribution of this book [*The Calculus of Consent*] was to identify a two-level structure of collective decision-making. We distinguished between “ordinary politics,” consisting of decisions made in legislative assemblies, and “constitutional politics,” consisting of decisions made about the rules for ordinary politics. ...

From the perspective of both justice and efficiency, majority rule may safely be allowed to operate in the realm of ordinary politics provided that there is generalised consensus on the constitution, or on the rules that define and limit what can be done through ordinary politics. It is in arriving at this constitutional framework where Wicksell’s idea of requiring unanimity—or at least super majorities—may be practically incorporated. (Buchanan 2003, 14-15)

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7. Given Buchanan’s visceral dislike of privilege, he should especially not be regarded as a conservative. Notably, Buchanan adhered to the liberal idea of “natural equality,” contrasting it with the idea of “natural hierarchy” typical of many strains of conservatism (Buchanan 2005a, 4-6).

8. Buchanan served as President of the Mont Pelerin Society from 1984 to 1986.

The interesting thing, from the point of view of Buchanan's liberalism, is that the constitutional political order established in this fashion is one of procedure rather than content. In the terminology of Viktor Vanberg (2011), Buchanan advances *constitutional liberalism*, which respects a freedom of individuals to choose the constitutional environment in which they wish to live, rather than *liberal constitutionalism*, which focuses on the need to provide institutional safeguards of individual liberty as private autonomy. It is what people agree to that is desirable, and there is no external criterion available that can be used to discriminate between various institutional settings. For example, if people agree to institute a political system with a qualified majority rule, then such a system may, in due time, introduce certain types of redistribution which would violate many liberals' values. That outcome is, then, legitimate to a contractarian, procedural liberal. Naturally, there are different preferences among citizens, and those that dislike the arrangement may argue in favor of policy or institutional change, and proposals to abandon redistribution may become more popular and meet the approval of a qualified majority. If so, *that* outcome is legitimate.

There is no guarantee, in other words, that the system of rules chosen behind a veil of uncertainty, at the stage of constitutional formation, will be *substantively* liberal, in the sense advanced by F. A. Hayek (1973), or that they will give rise to outcomes that are liberal in that sense.<sup>9</sup> It is clear that a concept of freedom, which is normatively basic in all types of liberalism (Gaus and Courtland 2011), plays a central role here: but it is freedom *in and through constitutional contract*. As Vanberg puts it: “[T]his ideal of individual liberty is about *individual sovereignty in defining the rules* under which a group of persons chooses to live, rules that among free and equal individuals can only be chosen by voluntary agreement” (Vanberg 2011, 9, emphasis in original).

The foregoing description of Buchanan's liberalism has concerned the grand principles and how to understand them. To make his liberalism more concrete, I mention four applications. First, Buchanan (1993) developed an argument for private property rights that does not take efficiency as the starting point. Rather, Buchanan located the main value of such rights in the ability of individuals to lead their lives as they please—including, if they are willing to forgo the gains from specialization, the ability to withdraw from the market nexus and the dependence

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9. Buchanan (1972) criticizes John Rawls for identifying “the difference principle” as the outcome of decision-making in the original position. Instead, he argues that a contractarian should accept the open-ended character of the constitutional process, which is compatible with many different distributional principles. Nevertheless, Buchanan (1991) predicts that institutions protecting a distinct sphere of voluntary exchange, along the lines of Adam Smith's idea of natural liberty, would find support behind a veil of uncertainty, at least if problems with externalities are perceived small.

on others it entails. By such choice, individual autonomy is preserved, a value highly cherished by Buchanan (not only in constitutional choice and in market exchange).

Second, Buchanan and Roger Congleton (1998) argued for a constitutional generality principle to constrain ordinary political decision-making. Buchanan's animus against privilege underlies the argument: without this principle, which requires that all citizens are treated equally *qua* citizens in all political decisions, some will use the political process to obtain favors at the expense of others.

Third, Buchanan favored a high inheritance tax. As Geoffrey Brennan writes:

[Buchanan] believed rather passionately in confiscatory estate and gift duties: He reckoned that inherited wealth (though not self-made or first-generation wealth) violates basic equality of opportunity, and his enmity towards dynasties was notable. (Brennan 2013)

Again, Buchanan's dislike of privilege comes through and strongly influences his positions. On one occasion, I personally heard Buchanan say that he thought people in general shared a dislike of inherited wealth and that a high inheritance tax was needed to retain widespread support for the market system. This position again underlines that he was no strict libertarian.

Lastly, Buchanan (2005b) dolefully outlined a new attitude, "parentalism," which is the popular demand for government interventionism, care, and protection. He took a strongly negative view of this demand, as well as the corresponding supply of policies that restrict individual freedom of choice. Here, Buchanan illustrates his strong respect for an order in which individuals are free to make their own life choices without the interference of others. He is, however, slightly pessimistic about the chances to stop further infringements: people are, he laments, "afraid to be free."

One can be a liberal in the classical sense of the term for many different reasons. Buchanan first became a socialist because he thought that his moral intuitions on issues of fairness were best served by the type of policies dictated by such an ideology. He then learned about markets and the way they work and realized that his intuitions were better served by a deep respect for each individual, as exemplified in the market by voluntary exchange and in politics by a constitutional order based on voluntary and unanimous agreement. The particular basis for his politics, a rejection of privilege and domination, led him to embrace his particular kind of liberalism.

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## Ronald H. Coase

by Daniel B. Klein

Ronald Coase (1910–2013) was born in a suburb of London. He attended the London School of Economics and earned a bachelor of commerce degree in 1932. He was a member of the staff at the LSE from 1935 to 1951, though working for the government during the war years. In 1951, after receiving a doctorate from the University of London, he relocated to the United States, first to the University of Buffalo, then in 1958 to the University of Virginia, with a year (1958–1959) at Stanford’s Center for the Advanced Study in Behavioral Sciences (where he was influenced by another visiting fellow, Thomas Kuhn; see Coase 1994, 26-29), then in 1964 to the University of Chicago Law School, where he took over as editor of the *Journal of Law and Economics*, a role he filled until 1982.

Coase was awarded the Nobel Prize in 1991 for his formulation of and subsequent research on transaction costs and property rights. The chief papers

cited by the Nobel committee for the award are “The Nature of the Firm” (Coase 1937) and “The Problem of Social Cost” (Coase 1960).

The story of the development of Coase’s ideological character is clear in the following respects: First, early on, prior to his coming under the influence of Arnold Plant at the LSE (this apparently at age 21), Coase was a “socialist,” as he repeatedly put it; second, in his late phase, he is very classical liberal.

Let us start with Coase’s late phase. Thomas Hazlett once interviewed Coase for *Reason* magazine, the interview appearing in January 1997. Excerpts from that interview show Coase’s approach to forming policy judgments and the pattern of his policy judgments:

**Reason:** Though you are now known as a leading free market economist, you started your intellectual career as a socialist. Why and when did your political views change?

**Coase:** They changed gradually. What was most important was the work I did on the economics of public utilities at the London School of Economics. I studied the results of municipal operation of utilities and the effects of nationalization, particularly in the post office. This led to grave doubts about nationalization. It didn’t produce the results people said it did. My views have always been driven by factual investigations. I’ve never started off—this is perhaps why I’m not a libertarian—with the idea that a human being has certain rights. I ask, “What are the rights which produce certain results?” I’m thinking in terms of production, the lives of people, standard of living, and so on. It has always been a factual business with me. I discovered that municipal operation didn’t work as well as people said it would, and nationalization did not either.

**Reason:** You said you’re not a libertarian. What do you consider your politics to be?

**Coase:** I really don’t know. I don’t reject any policy without considering what its results are. If someone says there’s going to be regulation, I don’t say that regulation will be bad. Let’s see. What we discover is that most regulation does produce, or has produced in recent times, a worse result. But I wouldn’t like to say that all regulation would have this effect because one can think of circumstances in which it doesn’t.

**Reason:** Can you give us an example of what you consider to be a good regulation and then an example of what you consider to be a not-so-good regulation?

**Coase:** This is a very interesting question because one can't give an answer to it. When I was editor of *The Journal of Law and Economics*, we published a whole series of studies of regulation and its effects. Almost all the studies—perhaps all the studies—suggested that the results of regulation had been bad, that the prices were higher, that the product was worse adapted to the needs of consumers, than it otherwise would have been. I was not willing to accept the view that all regulation was bound to produce these results. Therefore, what was my explanation for the results we had? I argued that the most probable explanation was that the government now operates on such a massive scale that it had reached the stage of what economists call negative marginal returns. Anything additional it does, it messes up. But that doesn't mean that if we reduce the size of government considerably, we wouldn't find then that there were some activities it did well. Until we reduce the size of government, we won't know what they are.

**Reason:** What's an example of bad regulation?

**Coase:** I can't remember one that's good. Regulation of transport, regulation of agriculture—agriculture is a, zoning is z. You know, you go from a to z, they are all bad. There were so many studies, and the result was quite universal: The effects were bad. (Coase 1997)

To my mind, Coase has a quality in a way that has been quite exceptional. The quality is acceptance of the idea that we make judgments about alternative institutional arrangements (or, alternative positions on a policy issue) without having a definite idea of how we arrive at or justify the judgment we make; an acceptance, that is, of making judgments about the important things in a way that will not necessarily, or perhaps not even typically, live up to a pretension of being scientific. Coase simply accepts such a way of carrying on, and was therefore candid and comfortable to build his work around the reality about the judgments that serious thinkers must make. Such acceptance and comfort is essential to the overarching teaching of his career, which is that in judging between two arrangements we must strive to mind all of what would come with each arrangement as actualized; we must take responsibility for all that comes with each option, even in the long run, even in consequences moral, cultural, and political. Because the consequences are so varied, extensive, complex, and uncertain, it is often, or usually, the case that any account is bound to be quite incomplete, vague, and uncertain; but, such is the situation.

In his famous paper “The Problem of Social Cost,” Coase reiterates that the overarching point is that we are responsible to “all the consequences” (1960, 18), all effects on value “in its widest sense” (*ibid.*, 41). The article concludes as follows:

“In devising and choosing between social arrangements we should have regard for the total effect. This, above all, is the change in approach which I am advocating” (ibid., 44).

The acceptance and comfort that I just described is expressed when Coase says, “it is, of course, desirable that the choice between different social arrangements for the solution of economic problems should be carried out in broader terms than [the value of production, as measured by the market] and that the total effect of these arrangements in all spheres of life should be taken into account. As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of aesthetics and morals” (Coase 1960, 43).

To many, Coase made himself eccentric in insisting that his total-effect approach constitutes an approach to economics that was forsaken. Coase maintained that “most economists have a different way of looking at economic problems and do not share my conception of the nature of our subject” (1988, 1). Coase’s apparent eccentricity is in the eyes of the beholder: Does one behold economists systematically leaving important considerations out of their analysis? In Coase’s mature view, freer institutions generally muddle along, or self-correct, less unsatisfactorily than do less free institutions; his classical liberalism came perhaps chiefly from his understanding of the downside of government intervention and of governmental institutions playing an active role in social affairs. The quiet message of Coase’s writing is that most economists are neglecting the downside of government activism, and in that sense are failing to regard the total effect of an institutional arrangement.

The total-effect mode of reasoning goes back in Coase’s writing at least to 1946, when he published “The Marginal Cost Controversy.” The point of that paper is to say that those economists who favor the pricing of access (to a road or “public utility”) at “marginal cost” often fail to offer thoughts regarding institutions in which the ‘economic’ problem is embedded. Here is a sample of Coase illuminating important effects to which, in his view, other economists had given too little consideration:

Neither Hotelling nor Lerner nor Meade give, in my view, sufficient weight to the stimulus to correct forecasting, which comes from having a subsequent market test of whether consumers are willing to pay the total cost of the product. Nor do they recognize the importance of the aid which the results of this market test give in enabling more accurate forecasts to be made in the future. . . . Nowhere in Hotelling’s article does one find recognition of the fact that it will be more difficult to discover whether to build new railroads or new

industries if one does not know whether the creation of past railroads or industries was wise social policy. And it is certainly not absurd to take into account the fact that decisions are likely to be better made if afterwards there is some test of whether such decisions were wise social policy than if such an enquiry is never made. (Coase 1946, 175-176)

Coase goes on to illuminate other important parts of the total effect, including the distortions from making up for the cost of services by taxes imposed elsewhere in the system (1946, 178-179). Coase's proposal was to study institutional arrangements as actualized, and use such learning in discussing whether arrangement A would be better than arrangement B.

There is one feature of Coase's thought with which I am dissatisfied, and which might be said to detract from his classical liberalism.<sup>10</sup> When Coase uses such terms as "free trade," the "free market," "intervention," and so on (one can search Coase 1994 for these terms), he means what people normally mean by such terms. When Thomas Hazlett asked Coase about "regulation," Coase had no trouble entering into that manner of speaking—and, funny thing, Coase found all regulations examined to be bad. Yet Coase did not highlight and elaborate the focalness and naturalness of the conventions upon which such terms are predicated; rather, he helped to promulgate a description of property, as well as a narrowing of the idea of rights, that tends to obscure or even deny such focal, natural conventions. He helped to promulgate the "bundle of rights" description of property (see especially Coase 1959, 33-34; 1960, 43-44). Doing so accompanied Coase's undue agnosticism about ownership and incursions thereon. Doing so also weakened the very ideas, and associated presumptions, of liberty or individual freedom, since those ideas are the flipside of the natural conventions that Adam Smith called commutative justice, within which property is primary.<sup>11</sup>

Notwithstanding the "bundle of rights" matter, Coase, particularly from the 1970s on, writes in a way that makes his classical liberal character quite clear. He writes in an essay from 1974: "To ignore the government's poor performance of its present duties when deciding on whether it should or should not take on new duties is obviously wrong" (Coase 1974, 23). The concluding sentences of Coase's 1976 essay "Adam Smith's View of Man," though quoted often, bear quoting again:

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10. Richard Epstein (2011) disagrees with me about this.

11. Thomas Merrill and Henry Smith, in their paper "Making Coasean Property More Coasean" (2011), also say that Coase took a misstep with the bundle view. They argue that the misstep does not much upset his contributions, which, they say, are only strengthened by incorporating, instead, a traditional (exclusion or "in rem") view of property.

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Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser. He thinks of man as he actually is—dominated, it is true, by self-love but not without some concern for others, able to reason but not necessarily in such a way as to reach the right conclusion, seeing the outcomes of his actions but through a veil of self-delusion. No doubt modern psychologists have added a great deal, some of it correct, to this eighteenth century view of human nature. But if one is willing to accept Adam Smith’s view of man as containing, if not the whole truth, at least a large part of it, realisation that his thought has a much broader foundation than is commonly assumed makes his argument for economic freedom more powerful and his conclusions more persuasive. (Coase 1976, 545-546)

Let us now turn back to Coase’s migration. In the *Reason* interview we saw Coase (1997) say that, to his migration, “What was most important was the work I did on the economics of public utilities at the London School of Economics.” That would be the late 1940s. In his autobiographical essay for the Nobel Prize, however, he seems to emphasize his early encounter with Plant, writing:

I attended [Plant’s] lectures on business administration but it was what he said in his seminar, which I started to attend only five months before the final examinations, that was to change my view of the working of the economic system, or perhaps more accurately was to give me one. What Plant did was to introduce me to Adam Smith’s “invisible hand”. He made me aware of how a competitive economic system could be coordinated by the pricing system. (Coase 1992)

Furthermore, in his response to our questionnaire, which is reproduced at the end of this profile, Coase indicates that at age 25 he was still half socialist, and he places great subsequent importance on the war years, saying, “The war experiences led me to see the inefficiency of big organizations, including the government, particularly their tendency to hide errors” (Coase 2013).

It seems reasonable to conclude that Coase’s socialist notions were shaken by Plant, and that Coase, throughout his thirties and forties, grew increasingly classical liberal. And even after 1950, Coase probably grew yet more firmly classical liberal, like many of the famed Chicago economists. For example, as with others in that set, Coase grew more classical liberal on the issue of antitrust, as well as probably regulation generally.

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

In a conversation of 1981, transcribed and published in 1983 as “The Fire of Truth” in the *Journal of Law and Economics*, Coase speaks of changes in his thinking after arriving at Chicago in 1964:

I think my views on both antitrust and regulation have changed, in part because I really didn't have very clear ideas on either of them before I came to Chicago. If people had asked me what did I think of antitrust laws, I would have said I favored them. After all, I favored competition and they produced competition. Regulation, I would have had the sort of woolly ideas that floated around at that time, I suppose. They weren't subjects that particularly interested me, but I would say that my views on those subjects have formed since coming to Chicago. (Coase, quoted in Kitch 1983, 213)

When Coase got to Chicago, he taught a class on antitrust. Ben Klein, a student, describes the course: “What [Coase] did was copy large sections of the case record in major antitrust cases, and we would go through the record and try to figure what was going on. Most of the time we reached the conclusion that we had no idea what was really going on in the business practices described” (B. Klein, quoted in Kitch 1983, 192). Coase then elaborates:

I remember giving that course. It so happened that I had never read an antitrust case before I came to the University of Chicago. I knew nothing about it. My recollection of that course is that it was what I call “hearty laughter” [laughter]. We'd read what these people were saying, and we couldn't make any sense of it at all [laughter]. It was just absurd what was going on. ... No one really understood these things, and it was that kind of lesson that I wanted to get over to economists... (Coase, quoted in Kitch 1983, 192-193).

Professor Coase's (2013) generous reply to our questionnaire follows; we are grateful to Ning Wang for assisting with the communication.

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My family naturally held socialist views because of a family friend, who was the head of the largest labor union in Britain.

I was a socialist at age 18.

*2. How about at age 25 or so? Had they changed at all by then?*

I held inconsistent views at 25. I was a socialist who believed in the market. Arnold Plant exposed me to the working of the invisible hand.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

During the war time (1945), everyone was preoccupied with the war. No one really considered the larger questions.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

My views have changed immensely. It's hard to say how. The war experience had certainly changed my views.

I remain optimistic about the political future. But the fact that it was our luck that we won the war worries me about the future.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking "move" in a particular "direction" (using the notion of ideological space)?*

Yes, my views have changed dramatically. But it did not happen as a simple shift in direction from being a socialist to a believer in the market. What I saw and what I lived through in the war played a big part in shaping my views on the role of the government. I still have hopes, but not convictions.

*6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

My teacher Arnold Plant and the war experiences greatly changed my views. Before Plant, I had no idea of how the free market would work. The war experiences led me to see the inefficiency of big organizations, including the government, particularly their tendency to hide errors. (Coase 2013)

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## Gerard Debreu

by Daniel B. Klein and Ryan Daza

Gerard Debreu (1921–2004) was born in Calais. He attended the *collège* there, where he was introduced to the “austere beauty of mathematics” (Debreu 1991, 3). During World War II, he continued his curriculum at Ambert and Gernoble in the Free Zone under the Vichy government, then left for Paris to enter the École Normale Supérieure in 1941. Outside of his schooling, Debreu did forced labor for the occupying German troops rebuilding streets and bridges (Düppe 2012, 418).

At the École, Debreu came under the influence of Henri Cartan, a founding member of the Bourbaki collective of mathematicians. Till Düppe describes the collective and Debreu's connection to it: “The most striking feature that Debreu must have experienced as liberating was the anonymity of mathematics that

'Bourbaki' as a collective represented. Rather than each single member speaking out in his own name, they aimed at letting *mathematics speak for itself*." (Düppe 2012, 419).

Bourbaki's purpose was "to mathematize mathematics and thus liberate it from pragmatic context in science" (Düppe 2012, 421). Düppe concludes that "the problem of Debreu's Bourbakism was thus not a particular philosophical belief about the role of mathematics in economics, nor any specific belief about economic reality. Debreu never learned to enjoy discursive, explicative, let alone contestable intellectual activities" (ibid.).

Debreu's education was interrupted by a stint in the French army following D-Day. After the war, Debreu took work as a researcher under Maurice Allais, then left to study in the United States. In 1950, he took a job in Chicago at the Cowles Commission for Research in Economics. From 1955 onward, he was professor at various universities, spending most of his time at Yale University and University of California at Berkeley. Debreu became a U.S. citizen in 1975, doing so in part because he was impressed that the American political system could have removed Richard Nixon from office for his crimes (Arrow 2011).

Well known for his collaboration with Kenneth Arrow (1954) to produce a general equilibrium proof, Debreu focused on the mathematics, not ideology, of economics. Düppe (2012, 416) writes that Debreu "was silent about the use of general equilibrium theory for either social engineering or libertarian justification." Debreu claimed never to have been a member of a political party (Düppe 2012, 443). Nobel chairman Assar Lindbeck said, "You would not get much of an economic policy discussion out of him" (Atlas 2005). Düppe adds that when writing his Nobel lecture, Debreu intended "to remain as internal as possible, that is, to avoid any controversial interpretations" (Düppe 2012, 441). As a new laureate, Debreu refused to comment on the Reagan Administration's economic policies and cared little for the press saying that he helped to mathematize Adam Smith's invisible hand (Düppe 2012, 439-440).

Among Debreu's few political forays were belonging to the National Academy of Sciences' Committee on Human Rights and studying academic freedom in Pinochet-era Chile (Arrow 2011, 325). Debreu tried to keep his support of human rights from other entanglements. Debreu once declined an invitation by Adolfo Pérez Esquivel, and then wrote in his personal notes: "I told [Perez's secretary] that according to the information she sent me, and that I received on Feb. 12, Human Rights were, contrary to my initial understanding, only one of several issues to be discussed by Perez. The other issues are complex economic questions with high political coloring. I told her I would *not* sponsor any of the events connected with Perez's visit" (quoted in Düppe 2012, 443 n. 18, emphasis in original).

In 1994, Debreu sent letters to Jacques Chirac to argue for government control over nuclear plants, but this action may have been related to personal connections between Debreu and the state utility Électricité de France (Düppe 2012, 424 n. 3).

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## Peter A. Diamond

by Daniel B. Klein and Ryan Daza

New York City-born Peter Diamond (1940–) graduated *summa cum laude* from Yale University with a major in mathematics. While at Yale, he took several economics courses, including one taught by Gerard Debreu. After his undergraduate education, during the summer of 1960, Diamond worked under Tjalling Koopmans at the Cowles Commission (Diamond 2011a). Diamond decided to pursue his graduate degree, studying both math and economics at MIT before switching completely to economics (Diamond 2007, 546).

After earning his Ph.D. in economics, Diamond taught at the University of California at Berkeley for several years before returning to MIT, where he has been ever since (Diamond 2011a). In 2010, he shared the Nobel Prize in Economics with Dale Mortensen and Christopher Pissarides for their analysis of markets with search frictions. In addition to unemployment, Diamond has worked on incomplete markets, social insurance, and intergenerational inefficiencies (Barr 2011).

Diamond grew up in an apolitical family, and he did not become interested in politics until his undergraduate years, when, as stated in his kind reply to our

questionnaire (reproduced at the end of this profile), he was a *National Review*-reading conservative (Diamond 2013). After graduate school, however, he moved strongly left. Diamond describes the primary influences: “By 25 I had moved left. I attribute that to three causes—moving to Berkeley, becoming involved with the woman I married at age 26, and teaching public finance, which expanded my understanding of the potential roles of the government” (ibid.). Also while at Berkeley, Diamond opposed university administration responses to student free speech uprisings (Diamond 2011a).

Diamond states that he “moved distinctly left” from his early 20s to his late 30s. Factors in this change include the Vietnam War, his own work on Social Security and incomplete markets, and “awareness of the normative limitations of competitive equilibrium.” He also notes that while he initially agreed with certain aspects of each political party, Republicans moved away from economic policies he favored, leaving him a staunch Democrat (Diamond 2013). Diamond elaborates:

While I am very aware of ways that the government does not do a really good job, I think that it is more useful to contribute to the political discourse by pointing out how government can do good things and do better, rather than simply being opposed to policies that are mixed bags—mixed bags are inevitable in American democracy, so the question for me is how to try to improve the mix. (Diamond 2013)

Diamond has analyzed many policy issues, particularly on retirement programs. Diamond does not favor switching to private provision of pensions unless “it contributes to increased national savings, a contribution that will not be present with some methods of shifting from public to private provision of pensions” (Diamond 2006, F117).

In the context of the growth model he designed, Diamond showed that increasing national debt can move the economy to a better place; by borrowing on behalf of the current generation, the government can alleviate intergenerational inefficiencies and raise the utility of each generation (Diamond 1965, 1147).

Regarding Social Security, he has expressed optimism about its durability: “I anticipate that Congress will act before the trust fund is exhausted, both lowering benefits relative to those scheduled under current law and providing additional revenues to finance higher benefits than are payable after 2042” (Diamond 2004, 1). Diamond holds that the basic structure—including taxation to provide a retirement plan and progressive benefits—makes sense and is needed. He says “we should change benefit and tax rules so that we restore actuarial balance” (ibid., 2). Elsewhere, he and Peter Orszag stated:

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Social Security is one of America's most successful government programs. It has helped millions of Americans avoid poverty on old age, upon becoming disabled, or after the death of a family wage earner. To be sure, the program faces a long-term deficit and is in need of updating. Social Security's long-term financial health can be restored through either minor adjustments or major surgery. In our view, major surgery is neither warranted nor desirable. (Diamond and Orszag 2005, 47)

In his reply to our questionnaire, Diamond (2013) points to his 2011 op-ed in the *New York Times* as an example of his current thoughts on policy. In that piece, he asks rhetorically why the Senate refused to approve him for Federal Reserve governor:

The easy answer is to point to shortcomings in our confirmation process and to partisan polarization in Washington. The more troubling answer, though, points to a fundamental misunderstanding: a failure to recognize that analysis of unemployment is crucial to conducting monetary policy. (Diamond 2011b)

Professor Diamond's generous reply to our questionnaire follows:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

There was very little to no political discussion as I grew up (on Long Island, as we left the Bronx when I was 6). I have two memories of my parents' politics. My father never voted in a primary; he explained that he was not willing to be identified with a political party. I have one memory of my mother saying that she was a liberal, evidenced by her support for Eisenhower for President. I was apolitical at 18 and remained apolitical throughout my undergraduate years.

*2. How about at age 25 or so? Had they changed at all by then?*

As a grad student (ages 20–23) I was conservative. Read the *National Review*. Enjoyed William Buckley. Listened to the first Kennedy-Nixon debate on radio. Thought Nixon won handily. Not old enough to vote in that election.

By 25 I had moved left. I attribute that to three causes—moving to Berkeley, becoming involved with the woman I married at age 26,

and teaching public finance, which expanded my understanding of the potential roles of the government.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

In my 30's I moved further left. Some of that was Nixon and Vietnam. Some was getting involved in work on Social Security, which expanded my view of the positive role of government—including helping people with bad decisions and recognizing more about the importance of this program to many people (as I wrote about in 1977). Possibly relevant was my basic research on incomplete markets and search which expanded my awareness of the normative limitations of competitive equilibrium beyond the standard externalities framing I had studied as a graduate student. In 1980 I voted for John Anderson for President.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

In my 30's I thought each party was better at some policy issues, with the Democrats being closer to my normative concerns and the Republicans having better understanding of some aspects of the economy. That Republican party is mostly gone. When asked in my 40's about my politics at a World Bank seminar I was presenting, I said I was a Democrat and an economist, which qualified the type of Democrat I was. I am not aware of a change in my underlying policy approach, although, of course, circumstances have changed and so policy specifics have changed.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking "move" in a particular "direction" (using the notion of ideological space)?*

From my early 20's to my late 30's I moved distinctly left in my policy views. Since then, I think I have been pretty stable in policy views, while the changes in political parties has moved me left in my political support. While I am very aware of ways that the government does not do a really good job, I think that it is more useful to contribute to the political discourse by pointing out how government can do good things and do better, rather than simply being opposed to policies that are mixed bags—mixed bags are inevitable in American democracy, so the question for me is how to try to improve the mix.

6. *If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

Answered above.

7. *We welcome citations to your writings that express your political views. We also welcome whatever tips you would give to someone researching your political views and their course over time.*

My *NY Times* op ed when I stopped being a candidate for Fed Governor (June 5, 2011). (Diamond 2013)

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## Robert F. Engle III

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Robert Engle (1942–) was born in Syracuse, New York, and raised in Philadelphia. He majored in physics at Williams College, then started on a Ph.D.

in physics at Cornell University but switched to economics after his first year. During graduate school, he worked at the Bureau of the Budget. After earning his doctorate, Engle joined the Massachusetts Institute of Technology faculty; later he moved to the University of California at San Diego, and then to New York University (Engle 2004).

Engle was awarded the Nobel Prize in Economics in 2003, along with Clive W. J. Granger, “for methods of analyzing economic time series with time-varying volatility (ARCH).” Engle and Granger won for their joint work on cointegration and developing a model to deal with heteroskedastic volatility in data with non-stationary means, work which has “completely revolutionized the field of time series econometrics and the practice of empirical macroeconomics and asset pricing finance” (Bollerslev 2008). Kevin Hoover says that “Granger and Engle coined the term ‘cointegration’ to describe the genuine relationship between two nonstationary time series. Time series are ‘cointegrated’ when the difference between them is itself stationary” (Hoover 2008). Realizing the applicability of ARCH to finance, Engle has focused largely on finance (Bollerslev 2008).

Despite only having had one economics course in his undergraduate education, Engle became increasingly interested in social science: “I was intrigued by the notion of applying myself to the most quantitative social science. This would allow me to use my mathematics and yet still study the interesting problems of modern mankind. It seemed to me that economics could be the path to esoteric academic modeling or to solving practical real world problems” (Engle 2003, 1161). In addition to his prize-winning topic of cointegration, Engle has also worked on urban economics, electricity demand, and finance (Bollerslev 2008).

Beyond advocating mainstream Keynesian policies, Engle does not appear to have expressed his views on politics or policy.

In a 2009 interview, Engle was asked about the recent recession. He responded:

The only thing that will turn markets around is when the economy itself is gradually turned around. Saving the banking sector is not sufficient to make the economy grow again. And without growth the housing market won’t recover. And without a housing market, the rest of the economy won’t move. As far as I can see, only a large, Keynesian fiscal stimulus will do the trick. (Engle 2009, 20)

Engle believed that the stock market volatility in 2009 compared to the Great Depression: “Its highest level was at the end of 1932 and beginning of 1933—the period of transition between Hoover and Roosevelt. This indicated that the kind of high volatility we are seeing today is the result of not just economic uncertainty, but

also political uncertainty. What is the government going to do? How effective will those policies be? No one has a confident answer to that yet” (Engle 2009, 20).

In a 2009 op-ed in the *Wall Street Journal*, Engle and co-author Viral Acharya stated:

Treasury Secretary Timothy Geithner proposed new regulations on derivatives trading. The administration’s goal is to introduce greater transparency to these financial contracts in order to reduce the systemic risk they pose to financial markets and to the economy as a whole. The proposals are good as far as they go, but they don’t go far enough. ... When trading in such derivatives is moved to exchanges under the Treasury’s proposals, the positions of counterparties will naturally be subject to capital requirements. But inadequately capitalized positions might still build up in derivatives such as collateralized debt obligations and collateralized loan obligations that continue to trade in opaque OTC markets. And this means continued systemic risk to the economy.

To prevent this from happening again in the future, we suggest that regulators make all derivatives transparent. In particular, derivative transactions in OTC markets should be public information. ...

Centralized exchange trading of standard derivative products, which Mr. Geithner has proposed, is an important step forward. But regulators must look to fighting the next war, not just the last one. Transparency in OTC markets would discourage players from cloning standard derivative products to reduce capital requirements on centralized exchanges. (Acharya and Engle 2009a)

Elsewhere, Acharya and Engle made similar statements on the same subject:

Large players will argue, as they have repeatedly done in the past, that it [legislating transparency and enabling markets to price their counterparty risk appropriately] inhibits financial innovation and prevents them from providing customized solutions that benefit corporate clients. There is clearly some merit to this argument, but it is also true that transparency will reduce the oligopolistic advantage, both to charge higher spreads and take on hidden leverage. Hence the resistance from large players against counterparty transparency needs to be balanced against the competitive efficiency of the marketplace, and more importantly against the systemic losses inflicted on rest of

the financial system and taxpayers by failures. (Acharya and Engle 2009b)

Engle has advocated higher inflation to help the economy out of the recession. Engle believes slightly higher inflation rates would reduce unemployment. Further, he argued, it would help the housing market. “If we had just a little bit of inflation and house prices went up, all the sudden they’d be above the mortgages” (Engle quoted in Rastello 2012).

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## Robert W. Fogel

by Daniel B. Klein and Ryan Daza

Robert W. Fogel (1926–2013) was born in New York City in 1926 four years after his family emigrated from Russia. His family had arrived from Russia penniless and managed to establish several small businesses. Fogel recalled:

*[jump to navigation table](#)*

Despite the hard times of the Great Depression and the modest financial circumstances in which we lived, they created a joyful household and they encouraged my brother and me to be optimistic about the future. My parents' reverence for learning encouraged both my brother and me toward academic pursuits. ... I still remember the intense discussions by my brother and his college classmates about the social and economic issues of the Depression that I overheard as I lay in my bed, supposedly asleep, in the next room. (Fogel 1994)

Fogel credited his New York City public education, between 1932 and 1944, as an “excellent preparation for a life in science” (Fogel 1994). Fogel earned an undergraduate degree from Cornell University in 1948, a master's in economics from Columbia University in 1960 and a Ph.D. in economic history from Johns Hopkins in 1963. Fogel taught at Johns Hopkins University and the University of Rochester. He joined the University of Chicago permanent faculty in 1964 and then briefly moved to Harvard in 1975 before returning to Chicago in 1981. He remained at Chicago for the rest of his career.

Fogel was co-recipient of the Nobel Prize, with Douglass C. North, in 1993. The committee commended Fogel “for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change.” His most noted books are *Railroads and American Economic Growth: Essays in Econometric History* (Fogel 1964); *Time On the Cross: The Economics of American Negro Slavery* (Fogel and Engerman 1974); *Without Consent or Contract: The Rise and Fall of American Slavery* (Fogel 1989); *The Fourth Great Awakening and the Future of Egalitarianism* (Fogel 2000); and *The Escape from Hunger and Premature Death, 1700–2100: Europe, America, and the Third World* (Fogel 2004a).

Early in life, Fogel became involved in left-wing politics. Before he pursued an academic career, he “worked as a professional organizer for the Communist Party” (Hershey 2013). He met his future wife, Enid Cassandra Morgan, when she “headed a Harlem youth group promoting the Progressive Party presidential candidacy of Henry A. Wallace” (ibid.).

A 1947 article from the *Cornell Daily Sun* reported on a campus debate involving Fogel:

Robert Fogel '48, arguing from a standpoint of economic inequities under the capitalist system and John Roche, Grad. basing his opposing views on the loss of individual freedom debated the desirability of Communism in America last night.

Addressing the last meeting of the Marxist Discussion Group Fogel, president of the organization, declared that “while we have

tremendous resources, our present society is so constructed that we have lavishness for the few and discrimination, poverty and war for the many.”

Quoting from Lenin he pointed out that there is no conflict between Communism and Socialism in the classical sense. The Communists in this country and in most countries throughout the world are actually working for socialism, he said.

“Today they (the Communists) fight for anything that will help the majority of the people.” Citing the Communist Party stand in favor of such legislation as the housing and national health bills, Fogel declared, “Anything that aids the majority of the people brings the country that much closer to Socialism.”

Maintaining that the present economic system does not provide for the economic and social needs of the people and generates racial inequality he cited the widespread sub-standard living conditions and the relatively low wage schedule and high death rate of American Negroes especially in the South. (Cornell Daily Sun 1947, 1)

A recent article in a Cornell alumni publication explained Fogel’s role as a campus Marxist:

Robert Fogel ’48, who would win the Nobel Prize for Economics in 1993, was Cornell’s leading student radical in the late Forties, when Soviet-American friendship was replaced by the bitter suspicions of the Cold War. ... At Cornell, Fogel switched to economics and history—as well as political agitation. He became head of the Marxist Discussion Group and the campus chapter of American Youth for Democracy (AYD), the successor to the Young Communist League and an organization that Attorney General Tom Clark placed on his 1947 subversive list. The *Alumni News* estimated that in Fogel’s last years on campus the AYD had about a dozen members, with most radical students preferring either the Henry Wallace politics of the Progressive Citizens of America or the Students for Democratic Action, which was linked to its anti-Stalinist parent organization, Americans for Democratic Action, founded by Arthur Schlesinger Jr. and Reinhold Niebuhr.

Although his followers were few, Fogel put Marxism on the postwar campus map. In speeches, public debates, and letters to the *Daily Sun*, he proclaimed that communists “fight for anything that will help the majority of the people.” ...

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

In early 1949, a year after his graduation, Fogel was still on campus. On behalf of his Marxist Discussion Group, he invited Eugene Dennis, secretary of the American Communist Party—then under indictment in federal district court for advocating the overthrow of the U.S. government—to speak at Cornell. The Faculty Committee on the Scheduling of Public Events, however, unanimously turned thumbs down, declaring: “No person under indictment should be permitted to substitute the campus of Cornell University for the legally constituted courtroom as a forum to plead his case.” At a rally that April, Fogel charged that the faculty caved in because it was “unrepresentative, lacking professors who believed in Marxist doctrine.” (Altschuler and Kramnick 2010)

In an appreciative essay published in a volume in honor of Fogel, Deirdre McCloskey drew on her time as Fogel’s junior colleague at the University of Chicago in speaking of Fogel’s ideological migration:

Fogel’s socialist background made a big impression on me and taught me to outgrow my own socialism. Here was a man who had been a paid organizer for one of the principal youth organizations of the Communist Party. And yet he was reasonable. . . . He described himself quite accurately as a Scoop Jackson Democrat and argued genially with us about the good sides of Nixon, Vietnam, and Mayor Daley. One learned that people could change their minds on reasonable grounds, and then go on to argue with civility about things that mattered. (McCloskey 1992, 18)

Henry M. “Scoop” Jackson, a Democratic Congressman and Senator from the state of Washington, was noted for his hawkish, anti-communist views on foreign policy.

In a 2006 interview, Fogel discussed his early years:

When I graduated from college, I had two job offers. One was from my father, to join him in the meat-packing business. That would have been quite lucrative. The other was as an activist for a left-wing youth organization. I chose the latter and worked as an activist from 1948 to 1956. At the time I was making that decision, my father told me: “If you really believe in that cause, come work with me. You will make a much higher wage and you could give your extra income to hire several people instead of just yourself.” I thought, well, that makes some sense. But I was convinced that this was a way to get me to

change my views or at least lessen my commitment to an ideological cause that I found very important. Yes, the first year, I might give all of my extra money to the movement, but every year I would probably give less, and finally reach the point when I was giving nothing at all. I feared I would be co-opted. I thought this was my father's way of indoctrinating me.

So I went to work as an activist. At first, I thought what I was doing was important. But over time, I started to become disillusioned. The Marxists had predicted a depression in 1947–1948. That didn't happen, so they said, it will happen the next year. But it never came. So by the early 1950s, I began seriously reconsidering my position. I had been drawn to Marxism because I thought of it as a science. But it was pretty clear that its "scientific" predictions were wildly off the mark. I was ready to leave the movement, but then McCarthyism started to heat up and that led me to hesitate. I stayed a few more years to fight against McCarthyism. But by 1955 and 1956, the horrors that had occurred under Stalin, which we had all heard about but didn't really believe, were confirmed by Khrushchev. That was the breaking point in a sense. I began to rethink my views and especially my involvement with Marxism. So I decided that I needed to receive more serious training in economics and the social sciences generally and went to Columbia. (Fogel 2007a, 49)

Fogel's interviewer, Aaron Steelman, then asked, "Did the failures of Marxism to accurately analyze the economic situation in the United States influence you to pursue work that was heavily data driven and empirical?" Fogel replied:

There is no doubt about that. As I said, Marxism was sold as a science, but it became clear that it was not. It was more of an ideology than anything else. My early experiences made me very skeptical of ideologies of any persuasion. I'm willing to be surprised, to accept seemingly radical ideas, but there better be data to back up those claims, and Marxism could not provide that type of evidence. (Fogel 2007a, 49)

When asked, "Which economists have influenced you the most?," Fogel replied:

Well, obviously Simon Kuznets [who supervised Fogel's doctoral dissertation at Johns Hopkins] would be at the top of the list. The older I get, the more I realize the extent to which my whole outlook on

economics was shaped by him. George Stigler had a big influence on me, first as a student at Columbia and then as a colleague at Chicago. I took his price theory course at Columbia. He was an extremely smart man, a great teacher, and had a great wit. I never got heavily involved in monetary economics, but I was certainly influenced by Milton [Friedman]’s empiricism. Robert Solow also had a huge influence on me. He provided a framework for looking at growth that was extremely useful in my work. Tom Schelling was another strong influence on me. You couldn’t be at Harvard without being impressed by him. He has one of the most probing, original minds I have ever encountered. (Fogel 2007a, 49)

In his writings, Fogel tended not to make pronouncements on public policy issues. It seems that he has never been signatory to an economist petition concerning policy or politics. Even when he wrote for relatively popular outlets such as the *Wall Street Journal* (Fogel 1996), *Daedalus* (Fogel and Lee 2002; Fogel 2007b), or the website of the American Enterprise Institute (Fogel 2009), Fogel was quite reserved when it comes to policy judgment.

Our own impression is that Fogel was primarily concerned with making social-science contributions that will serve humankind, and that ideologically he carried something of a tension between two tendencies. The first is the tendency to be a progressive social reformer and a Democrat, the other is a countervailing skepticism toward the first.

The progressive, Democratic side of Fogel is perhaps evidenced in, for example, his book *The Fourth Great Awakening* (2000). Edward Zajac has summed up the “awakenings” as follows:

The first great awakening (1stGA), lasting from roughly 1730 to 1830, saw the weakening of the doctrine of predestination and the rise of the ethic of benevolence. The second great awakening (2ndGA) (1800–1920) saw the emergence of the belief that one could achieve saving grace through inner and outer struggle against sin. In the third great awakening (3rdGA) (1890–) emphasis shifted from personal to social sin, accompanied by a shift to a more secular interpretation of the Bible. The 3rdGA also saw the emergence of the Social Gospel movement that rejected the notion that poverty is the wages of sin in favor of the idea that rescuing the poor from their plight is society’s responsibility. Finally, in the present, fourth great awakening (4thGA) (1960–) there has been a return to sensuous religion, and a reassertion

of the experimental content of the Bible and the concept of personal sin. ...

At a minimum, [Fogel's book] suggests a new classification language, even for secular matters. For example, John Rawls is obviously a 3rdGA political philosopher, while Friedrich Hayek and Robert Nozick are 4th GA. Ralph Nader's Green Party is 3rdGA, while...the Libertarian Party...is 4thGA. (Zajac 2000, 1171-1172)

Fogel saw himself on the former side of this contemporary division: "Readers should be forewarned that I write as a secular child of the Third Great Awakening and that all my life I have accepted its basic ethics and the basic thrust of its reforms. My task as a social scientist, however, is to study society with as much objectivity as I can muster and to report the empirical findings without extenuating those that seem to cut across my most cherished values" (2000, 14).

In an article entitled "Who Gets Health Care?," published in *Daedalus* in 2002, Fogel and Chulhee Lee treated healthcare access in global perspective. The article concluded with policy implications; the space given to advocating policy reforms was unusual for Fogel, and one wonders if the impulse came largely from Fogel's coauthor. For the United States, Fogel and Lee offered, not any large sweeping reform, but several specific priorities and targeted measures. They spoke of the need to expand "prenatal and postnatal care targeted particularly at young single mothers," and to improve "health education and mentoring to enable poorly educated people ... to be able to follow instructions for health care, to properly use medication, and to become involved in social networks conducive to good health." They also proposed the reintroduction into public schools of periodic health-screening programs "using nurses and physicians on a contract basis," and "the establishment of public-health clinics in underserved poor neighborhoods" (Fogel and Lee 2002, 115-116).

On the issue of health insurance coverage, Fogel and Lee wrote the following paragraph:

Readers may be surprised that we have not emphasized the extension of health insurance policies to the 15 percent of the population not currently insured. The flap in the United States over insurance has more to do with taxation than with health services. Keep in mind that the poor are already entitled to health care under Medicaid, and that the near poor often receive free health care through county or city hospitals and emergency rooms. What they do not do is pay taxes for those services. Most proposals for health insurance imply the taxation of their wages for services they already receive. Such insurance may

relieve the pressure on the public purse, but it will not guarantee better health care. We believe that health screening in schools and community clinics has a better chance at success than unexercised theoretical entitlements. (Fogel and Lee 2002, 116)

One of the notable features of Fogel and Lee's two-page discussion of policy implications for healthcare in the United States is that nothing is said about liberalizing any of the many restrictions that suppress the provision and increase the cost of healthcare services, products, and facilities.

Fogel and Lee (2002, 116-117) also wrote several paragraphs about policy directed toward health problems in poorer countries. They said that America, the OECD, and international agencies should help to bring vaccines, better water systems, sanitation, basic nutrients, education, money and personnel to poor countries. They also advocated increasing funding on medical research focused on diseases that afflict people especially in poorer countries.

The progressive-Democrat side of Fogel is perhaps also evident in a 2004 interview by Marika Griehsel, who asked, in the context of health economics: "Will people who have the power to take decision, for example politicians, always acknowledge the need to do this kind of research, or would they rather ignore the historical facts ... ?" Fogel's response was rather optimistic:

Well, if you take the people in Congress, the people who are the experts within Congress, on let's say issues of aging and healthcare, they pay a lot of attention to the technicians, they don't make policy independent of what the technical people are discovering or telling them, so I think they are very carefully listened to and they usually have on their staffs, people who are well trained in these fields and who have good ties to academic specialists. In the United States I think there is a pretty good interchange and my impression of most other countries is that it works, at least most other countries that I've visited and had a chance, it works similarly. Politicians realise they need to know what the facts are and that requires experts and they look to the experts to give them the information they need, so that they can make policy. (Fogel 2004b)

In the same interview, Fogel remarked on the role of government generally:

I would say in general, the main role of the government is to create circumstances in which the rate of change in technology can proceed as smoothly as possible and there is also a role that the government has to play in equity, that not all people benefit from technological change, some lose their jobs while others are lucky to be in the right place at the

right time and their incomes increase very rapidly, so there are equity issues in which the government has to play a role.

... So the government has to play a role in making it possible for people who are not in the favourite industries to be able to find better opportunities than they now have. It is an international question too, that is, the rich countries of the world have to make at least modest efforts. Modest efforts would be, let's say, 1% of their gross national product, should be contributed to assisting poor countries. (Fogel 2004b)

In an interview by Nick Schulz (2005), published in the now-defunct classical liberal website Tech Central Station, Fogel again was not outspoken on policy issues; he came across as favorable to the reforming of Social Security toward personally held, defined-contribution asset accounts.

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## Milton Friedman

by J. Daniel Hammond<sup>12</sup>

Milton Friedman's ideology remained indiscernible until he was in his mid-thirties. Then, in the late 1940s and early 1950s, it emerged. The three components were Marshallian economic theory, statistics, and political thought that he encountered at Mont Pèlerin in 1947. By the middle 1950s his ideology was set and henceforth changed little except for a decline in his confidence in the public interest motivation of public policies and an increase in his appreciation for insights from the public choice literature.

Records of Friedman's education and early career show little evidence of interest in policy, but they do allow us to see the intellectual formation and work experience from which his ideology developed. Friedman (1912–2006) enrolled at Rutgers University as a 16 year-old in 1928, and graduated in 1932. Friedman's primary interest at Rutgers was mathematics, although he graduated with an economics major and promptly entered the University of Chicago graduate program in economics. After a year of coursework in economics and mathematics he transferred to Columbia University to study mathematical economics. The next

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fall he returned to Chicago to work for Henry Schultz on *The Theory and Measurement of Demand* (Schultz 1938).

In August 1935 Friedman took his first job, with the National Resources Committee (NRC) in Washington, D.C. His work was in the design of survey sampling techniques for a New Deal study of consumer purchases. In September 1937 he moved from the NRC to the National Bureau of Economic Research (NBER) in New York, where he worked with Simon Kuznets on estimates of income of independent professionals. Friedman and Kuznets (1945) found that the premium physicians earned over dentists was due in part to monopoly power of the American Medical Association. But this was a scientific finding without a policy prescription.

While working at the NBER Friedman taught “The Structure of Neo-classical Economics” in the Columbia University Extension. The lectures for this course became the foundation of his graduate price theory course at Chicago. In 1940–41 Friedman taught economic theory, business cycles, and a seminar on income and wealth at the University of Wisconsin. From 1941 until 1943 he worked on tax policy for the U.S. Treasury, which included design of the income tax withholding system.

In March 1943 Friedman joined the Statistical Research Group (SRG) at Columbia, working for the U.S. armed services. When the SRG was closed in 1945 Friedman joined his friend George Stigler at the University of Minnesota. While Stigler was lobbying his Minnesota colleagues to hire Friedman, he received a letter from Friedman reporting that his work for the SRG on sequential analysis had been declassified and was ripe for application in business. If Minnesota hired Friedman they would get credit for introducing this innovation to the public (see Friedman 2006/1945, 16). Friedman got the job at Minnesota, where he and Stigler shared an office. After one academic year Stigler departed Minnesota for Brown University and Friedman departed for Chicago.

Up to the point of his joining Stigler at Minnesota, when he was thirty-three years old, Friedman’s interests and expertise were in technical matters of economics and statistics. Where there were connections with policy his work was in service to policy rather than about policy. For example, when at the Treasury he helped design the income tax withholding system because his job was to design tax policy to finance the war effort. There was no ideological pattern other than the standard fare for economists, to look for an efficient way to attain the objective given to him by others.

During the years 1946–47 this changed. Friedman’s ideology began to emerge when he was at Minnesota. He and Stigler wrote *Roofs or Ceilings? The Current Housing Problem* (1946), a pamphlet critical of rent controls, sponsored by the Foundation for Economic Education (FEE). This essay was Friedman’s first foray

into policy advocacy for the public at large. Friedman and Stigler took two positions in the essay that became components of his ideology. Their primary argument was for removing the wartime rent controls, allowing free-market prices to allocate rental housing. Of less importance for the rent control issue—but of substantial importance for Friedman’s ideology—Friedman and Stigler (1946, 10) expressed desire for greater equality of income.

Orval Watts and Leonard Read at FEE wanted Friedman and Stigler to remove their pointed statement about equality from the rent control essay, out of concern that FEE would be associated with support for progressive income taxation. Friedman and Stigler replied that if publication was conditional on the statement being removed they would prefer that the essay not be published. In a letter to Read, Friedman wrote:

I believe it essential to make clear wherein we are criticizing means and wherein ends. Failure of liberals to emphasize their objectives seems to me one of [the] reasons they are so often labeled reactionaries. (Friedman 2006/1946, 21)

Friedman and Stigler stressed to Watts and Read that their intention was to show that rent controls are an ineffective way of aiding the poor, not to argue against public assistance for the poor. A primary concern for common people, including the poor, was a key component of Friedman’s ideology through the rest of his career.

Friedman’s ideology formed rapidly after his year at Minnesota. His preparation for teaching price theory at Chicago was a collaborative effort with Stigler. He wrote in August 1946 that he had been reading Stigler’s *The Theory of Price* (1946) and Alfred Marshall’s *Principles* (1920) to prepare for teaching. A hallmark of the Marshallian approach that he used in his Chicago course was the “forging of tools that can be used fairly directly in analyzing practical problems” (Friedman 1949, 469). In developing and teaching economic theory, policy questions were kept close at hand.

During Friedman’s first year on the University of Chicago faculty (1946–47) he was invited to attend a meeting of liberals at Mont Pèlerin, Switzerland. There he met F. A. Hayek and other European and American liberals. It was at Mont Pèlerin in April 1947 that Friedman took a step beyond economics and statistics to engage with the political and philosophical ideas that undergird policy. Friedman recalled the importance of Mont Pèlerin in an interview:

Mont Pèlerin was the first time that I came into contact with people like Hayek, Lionel Robbins, and the European contingent of that time.

That widened my perspective about issues and policy. (Friedman 1995)

On the macroeconomics side, in September 1947 Friedman presented to the Econometric Society his paper on “A Monetary and Fiscal Framework for Economic Stability” (1948). This paper shows that Friedman believed, prior to his work on money and business cycles with Anna Schwartz, that government policies contributed to cyclical instability. Such thinking set him apart from Keynesians who attributed business cycles to instability in private expenditures. In 1948 he and Schwartz began their collaboration. By the year’s end Friedman came to the conclusion that the Federal Reserve had been a destabilizing force over the period of its existence and that the United States might well have been better off had the Fed not been created (see Hammond 1996, 56).

By the middle 1950s Friedman’s ideology was fully formed. His approach to economics, which he learned first from Arthur F. Burns at Rutgers and then from Jacob Viner at Chicago, featured a close relationship between theory and real-world problems. So now policy and theory would go hand-in-hand. His work on money and business cycles, the basis of which was his training under Wesley C. Mitchell at Columbia and the NBER, led to his conclusions about money, the Federal Reserve, and business cycles. And Friedman’s experience with Hayek and his confreres at Mont Pèlerin helped him to place the technical matters of economics and policy within a liberal political-economy framework.

Friedman’s advocacy of free markets as the starting point for discussions of policy was consistent through his writings. He laid out principles for government policy in two publications that preceded *Capitalism and Freedom* (1962), where the arguments are repeated. In a 1951 article titled “Neo-liberalism and Its Prospects” he wrote:

Neo-liberalism would accept the nineteenth century liberal emphasis on the fundamental importance of the individual, but it would substitute for the nineteenth century goal of laissez-faire as a means to this end, the goal of the competitive order. It would seek to use competition among producers to protect consumers from exploitation, competition among employers to protect workers and owners of property, and competition among consumers to protect the enterprises themselves. The state would police the system, establish conditions favorable to competition and prevent monopoly, provide a stable monetary framework, and relieve acute misery and distress. The citizens would be protected against the state by the existence of

a free private market; and against one another by the preservation of competition. (Friedman 1951a, 92-93)

In “Liberalism, Old Style” (1955a), Friedman expanded the details of these principles by identifying three grounds for government intervention into private affairs: (1) natural monopoly, (2) substantial neighborhood effects (externalities), and (3) to protect children and irresponsible adults. In *Capitalism and Freedom* (1962) he applied these principles to areas of policy such as international finance and trade, education, occupational licensure, and alleviation of poverty.

Friedman’s consistency is illustrated in his writings on education policy (Friedman 1955b; 1962; Friedman and Friedman 1980). He accepted that there were grounds for public subsidies for primary education on the basis of externalities (but not for higher education). The subsidy should be to the family in the form of a voucher rather than to the school. Likewise, he favored public assistance for the poor in the most direct and efficient form possible—cash. Thus Friedman paired reliance on private arrangements, to the extent that would be consistent with efficiency, with a preference for the less powerful customer (or citizen) rather than the more powerful producer (or organization). The capstone was set when he and his wife Rose Friedman founded the Friedman Foundation for Educational Choice in 1996.

In a sense Friedman never rejected the New Deal goals of relief, recovery, and reform. He rejected the means to those goals, however, when he came to believe that they were counterproductive. His recommendations for monetary policy are a case in point. One of the lessons Friedman learned from Arthur Burns and Wesley Mitchell was that economists know less than their pretensions suggest. This was Friedman’s first and most crucial difference with Keynesians. This can be seen in his comments on work by Jan Tinbergen (Friedman 1940), Oskar Lange (Friedman 1946), Abba Lerner (Friedman 1947), and Carl Christ (Friedman 1951b), and it was the basis of his advocacy of monetary policy rules (Friedman 1948; 1960; 1972).

One aspect of Friedman’s thinking about public policy did change substantially over the course of his career. This was a decline in his confidence in the ability and willingness of public officials to pursue the public interest. In 1953 Friedman wrote that:

I venture the judgment, however, that currently in the Western world, and especially in the United States, differences about economic policy among disinterested citizens derive predominantly from different predictions about the economic consequences of taking action—differences that in principle can be eliminated by the progress of

positive economics—rather than from fundamental differences in basic values.... (Friedman 1953, 5)

His confidence in the public spiritedness of citizens and public officials declined as he saw representatives of vested interests resist reforms that were backed by what he thought was compelling economic evidence. He also became more acutely aware of the power of special interests in resisting reform. Thus, for example, in the 1980s Friedman was an active supporter of efforts to pass an amendment to the U.S. Constitution requiring Congress to run a balanced budget and setting controls on spending. Also important was his exposure in the 1960s to the new literature on public choice. As he and Rose Friedman wrote in the preface to *Free to Choose*:

[T]his book is influenced by a fresh approach to political science that has come mainly from economists—Anthony Downs, James M. Buchanan, Gordon Tullock, George J. Stigler, and Gary S. Becker, who, along with many others, have been doing exciting work in the economic analysis of politics. *Free to Choose* treats the political system symmetrically with the economic system. Both are regarded as markets in which the outcome is determined by the interaction among persons pursuing their own self-interests (broadly interpreted) rather than by the social goals the participants find it advantageous to enunciate. (Friedman and Friedman 1980, ix-x).

We have seen that as a youth and young man Milton Friedman did not have an active interest in economic and social policy. His intellectual interests were first in mathematics and statistics, and then economics. However, the statistics and economics that he learned were not theory for the sake of theory, but theory in service of understanding concrete problems of life and society. This led naturally to Friedman forming an interest in economic policy. His participation in the Mont Pèlerin meeting exposed him to liberal ideas beyond economics. From the middle 1950s on, though details of his views on particular policy matters may have changed as the economic and political landscape changed, his way of thinking about the role of government and his fundamental principles for public policy were stable.

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## Ragnar Frisch

by Arild Sæther<sup>13</sup> and Ib E. Eriksen<sup>14</sup>

Ragnar Frisch (1895–1973) was the son of a gold- and silversmith, Anton Frisch, and his wife, Ragna Fredrikke Kittilsen. Frisch states in his autobiography that his mother had had a great impact on his “general outlook and view on life” (Frisch 1992/1970). It was more or less taken for granted that he should follow in his father’s footsteps and take over the family firm. The young Frisch therefore became an apprentice to become a goldsmith. His mother saw, however, that this would not be satisfactory for him in the long run. She insisted that he should enrol at a university. He chose political economy because, according to himself, that was the “*shortest and easiest* study” at the University of Oslo (*ibid.*, emphases in original).

He graduated with distinction from the Royal Fredericks University of Oslo in 1919, with the degree Cand.oecon. in political economy. A year later he completed his handicraftsman’s probation work as a goldsmith. On completion of his studies he was rewarded a fellowship from the university and went abroad to study mathematics, statistics and economics. He stayed nearly three years in France, but visited also Germany, Great Britain, and Italy. On his return to the university he continued his scientific activity believing that research was his calling. In 1925 he became an assistant on a research programme in production theory led by Professor Petter Thorvald Aarum (1867–1926). In 1926 Frisch defended his doctoral thesis, “*Sur les semi-invariants et moments employés dans l’étude des distributions statistiques*,” a work on time series and statistics, at the Faculty of Mathematical and Natural Sciences.

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1926 was an important year for Frisch, as he published several academic articles and also was appointed Assistant Professor in economics and statistics at the University of Oslo. “Sur un problème d’économie pure” (Frisch 1926b) was his first work on economics, and the first in his own quantification programme of the economic science (Edvardsen 2001, 9). This work was an attempt to develop an axiomatic foundation of utility, as a quantitative notion to measure statistical variation in the marginal utility of money. He also published an article claiming that economics should follow the same path towards theoretical and empirical quantification as the natural sciences, especially physics (Frisch 1926c).

In 1927 Frisch received a fellowship from the Rockefeller Foundation and went to the United States where he met the leading mathematical economists of the day, among them Irving Fisher, Wesley Clair Mitchell, Henry Schultz, and Allyn Young. Frisch, Fisher, and Charles Roos began planning the formation of an association that came to be the Econometric Society. When Frisch’s father died shortly after his return in 1928, he took over the silver and gold firm. He chose to delegate the management of the business to others and concentrated instead on his economic research.

An article, “Statikk og dynamikk i den økonomiske teori” (“Statics and dynamics in economic theory”), in which Frisch develops dynamics as a new way of analysing economic phenomena, was published in 1929. This year he was also promoted to Associate Professor and started to lecture on the theory of production, in which he extensively used mathematics.

Following an invitation from Irving Fisher he returned to the United States in 1930. He spent several productive months at Yale University and at the University of Minnesota. During this stay he produced several papers and gave many lectures that enhanced his reputation as a coming star in economics. That year he also played a crucial part in the founding of the Econometric Society.

Professor Ingvar Brynhjulf Wedervang (1891–1961) and Frisch wrote in 1930 an application to the Rockefeller Foundation for financial support to establish an Institute of Economic Research at the University of Oslo. This application was granted on the condition that Frisch would be the research director. He therefore declined an attractive Yale University offer of a tenured professorship. He returned to Oslo, where his colleagues at the university, after intensive lobbying, had managed to convince the Parliament to provide the extra funding needed to create a chair for him. Their argument was that Norway could not afford to lose an outstanding economist to another country.

Frisch returned to Oslo and took up his new chair in 1931. In 1932 he became Director of Research at the newly established Institute of Economics at the university. The outcome of these events had, as Olav Bjerkholt (2000, 6) contends, “a major influence on the career of Ragnar Frisch as well as on the development of

empirical social science in Norway.” It also has had a major influence on national economic planning and the economic development of post-war Norway.

In the 1930s Frisch became an ardent protagonist for what he called rational and scientific economics, and he published continuously on many subjects. He was instrumental in the development of a new five-year study programme in economics that started in 1935. Internationally he played an active role through his many significant scholarly contributions. In 1933 he became the first Editor in Chief of *Econometrica*, a position he held for more than twenty years.<sup>15</sup> As editor he played an important role in the shaping of economics as a quantitative science. He wrote numerous articles for this journal and for many others. As a skilled linguist Frisch wrote in English, French, German, or Norwegian.

During World War II, Frisch worked methodically to construct national accounts and national budgets, and his methods were applied in the first Norwegian national budget after the war. When in 1943 the University of Oslo was closed by the Nazis, Frisch was imprisoned for a year together with many other professors. After the war he worked continuously on the development of macroeconomic planning models.

Frisch was an invited member of a great number of learned societies in different countries and he received several *honoris causa* doctorates. In 1961 he was awarded the Antonio Feltrinelli prize by the Italian society Accademia Nazionale dei Lincei.

When the Swedish Central Bank established its Prize in Economic Science in Memory of Alfred Nobel in 1969, the prize was awarded jointly to Ragnar Frisch and the Dutch economist Jan Tinbergen for “for having developed and applied dynamic models for the analysis of economic processes.”

There is no doubt that Ragnar Frisch was a great scholar who lived an extremely productive academic life. His life work is impressive (Arrow 1960; Johansen 1969; Samuelson 1974; Edvardsen 1970; 2001). He was one of the founders of modern economics and made a number of significant advances in the field of statistics, as well as economics. He coined such terms as *econometrics* and *macroeconomics*. In Norwegian academic life he remains a major figure and he is universally recognized as a great economist. He is most famous for having written a substantial number of ground-breaking articles on econometrics, time series, linear regression analysis, production theory, and business cycles, and for having played an important role in ensuring that mathematical techniques figure prominently in modern economic analysis.

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15. In Bjerkholt (1995a and 1995b), Frisch is commemorated as *Econometrica's* first editor and as the originator of econometrics.

As an economist Frisch developed a genuine interest for the world economy. In his capacity as Chairman on the UN Economic and Employment Commission he advocated the development of economic world accounts and world budgets. He also worked as an expert in economics in several developing countries, including extensive tours in India and Egypt.

It should also be mentioned that he cared for his students and that he was extremely helpful and kind to those who were doing their best.

Apart from being an outstanding economist Frisch was a beekeeper. He himself called bee-keeping and queen-rearing an obsession that he never was able to get rid of.

When Ragnar Frisch, a giant in the fields of economics, died in 1973, Norway lost its first internationally acclaimed economist.

## From a pale blue to a unique shade of red

Professor Preben Munthe (1999, 154) has written that “[Ole] Colbjørnsen gikk fra rød til blå, Frisch fra lyseblå til egen variant av rød”—Colbjørnsen moved politically from red to blue, Frisch from a pale blue to a unique shade of red.<sup>16</sup>

When Frisch returned from the U.S. he had formed impressions of the economic crises in the United States; according to Munthe (1997; 1999), his thoughts had a strong American imprint. The market economy with private investors and private initiative was very important, but in a crisis the government should intervene, stabilize the economy and then withdraw.

Since it was the Parliament that had provided funds for his professorship, Frisch felt that he was obliged to contribute something in return. He therefore, in the autumn of 1932, took the initiative to meet privately with the prime minister of the centre government, with prominent parliamentarians of the non-socialist parties, and also with the leaders of banking, trade, and industry. In these meetings he circulated a memorandum not meant for publication (Frisch 1951/1932) and presented his views on the crisis and what remedies should be introduced.

Monetary policies were the most important tools. When resources were not fully utilized the reason was “lack of circulation money in consumption” (see Munthe 1999, 145). His solution was to increase credit and to reduce income taxation. Reduced income tax would stimulate demand but also create a deficit in the state budget. A key matter in his program was how this deficit should be financed.

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16. Throughout this profile, the authors are responsible for all the translations from Norwegian into English.

His proposals fell on stony ground, and his ideas were considered to be unpractical and far-fetched. Frisch later said that “it was like hitting my head against a brick wall” and that “their delusions were many” (Bjerve and Frisch 1971, 145). However, their opposition inspired him to put his ideas in writings.

Frisch therefore in 1933 wrote three articles in the daily newspaper *Dagbladet* outlining his analysis of the causes and the remedies that would get Norway out of the crisis (Frisch 1933). His analysis and recommendation were harshly reviewed and criticized by Ole Colbjørnsen in the newspaper *Arbeiderbladet*, the main outlet of the socialist Labour Party.<sup>17</sup> Frisch’s proposals were attacked because they benefited people that were able to pay taxes. Why not give the support to the unemployed or better use the money to get people into work? Colbjørnsen was surprised that Frisch did not realise that private capitalism had failed and that the road forward was a socialist planned economy. In his counterattack Frisch claimed that the weakness in Colbjørnsen’s planned economy was that it did not put enough emphasis on private initiative. It was necessary to organise the economy in such a way “that one can utilize the tremendous energy source which is implied in the will and initiative of each individual.”<sup>18</sup>

Surprisingly, within a short space of time the rather harsh discussion between Frisch and Colbjørnsen led to cooperation. How this came about is, according to Munthe (1995), not very clear. It is known that Frisch in the autumn of 1933 had a private meeting with some top parliamentarians of the socialist Labour Party, and maybe it was this meeting that changed his opinion.

Together Frisch and Colbjørnsen participated in the making of the Labour Party’s crisis plan of 1934. Frisch turned around, accepting a strong increase in public spending partly financed by loans, and he no longer supported private initiative and tax cuts. The Labour Party’s minority government, following the 1935 election, could have put their crisis plan into effect, but to the disappointment of Frisch, Colbjørnsen, and many others, it did not do so (Vogt 1961, 29). Leading Labour Party politicians saw both Frisch and Colbjørnsen as unpractical theorists, who had a tendency to “shoot pigeons with cannons.” These events led Frisch to withdraw from direct participation in politics and to concentrate his efforts on building up research and an advanced study programme in economics. This became known as the Oslo School of economic research and teaching.<sup>19</sup>

The Oslo School can be characterized by the introduction of quantitative methods in economic teaching and research, underpinned by extensive use of

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17. *Arbeiderbladet*, February 28, 1933. Ole Colbjørnsen had defected after years in Soviet service. He lived in London at the end of the 1920s and was fascinated by the ideas of John Maynard Keynes (1883–1946). Building on Munthe (1995) among others, Eriksen and Sæther (2010) argue that Colbjørnsen brought Keynes’s ideas to Norway.

18. *Arbeiderbladet*, May 15, 1933.

mathematics and statistics (Eriksen, Hanisch, and Sæther 2007). These tools were used to test economic theory and build economic models. The school concentrated on the development of national accounts, national budgets, and macroeconomic planning models. The school's attitude toward any invisible-hand tendencies of the free-market economy was one of great scepticism. The school rejected the notion of interest rates as a price on capital and the relationship between interest and liquidity. A macroeconomic planning system with detailed and selective policies vis-à-vis branches of industries therefore became a characteristic of the School.

The Oslo School integrated itself into what became to be called “the Iron Triangle,” that being the Institute of Economics, the Bureau of Census, and the Planning Department in the Ministry of Finance. This Iron Triangle had a major influence on economic planning in Norway in the first decades after WWII. Through his close colleagues, the students that graduated from the advanced programme in economics, and his Oslo School of research, including the Iron Triangle, Frisch had a strong influence on not only the economic scholarship but the actual economic development of post-war Norway.

From the second half of the 1930s the invisible-hand scepticism of Frisch and his followers only increased (Eriksen and Sæther 2010, 23). By the beginning of the 1940s Frisch was convinced that the market economic system had failed. At the end of 1941 he wrote in a letter to Trygve J. B. Hoff (1895–1982), the editor of the liberal Norwegian journal of economics *Farmand*.<sup>20</sup>

Personally, I believe that we are entering a period where more developed forms for industrial regulations will come to prominence. They are both unavoidable and, in my opinion, correct as counter-measures against the disproportional conditions that have developed. The grotesque outcomes we had in the depression of the 1930s—conscious destruction of commodities, permanent unemployment and stationary machinery—was, I would argue, mainly caused by certain “individualistic” features in our economic system.<sup>21</sup>

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19. According to Berg and Hanisch (1984), the term “Oslo School” was probably coined by the economist Ole David Koht-Nordby in his review of the book *Hva krigen kostet Norge* (“What the war cost Norway,” Aukrust and Bjerve 1945) in the newspaper *Verdens Gang*, September 22, 1945. It is not known that Frisch at any time used the term. Among economic historians in Norway it is, however, a familiar and much used term to distinguish the Oslo School from the Stockholm School and Keynesian economics (Eriksen and Sæther 2010).

20. *Farmand* was closed during the Nazi occupation but reopened after the liberation. Hoff as editor fought fiercely, but in vain, against the Oslo School and the planning system that was established in Norway after the war.

21. National Library of Norway, Manuscripts Collection, Brevsamling 761B, letter dated November 10, 1941.

Hoff strongly refuted this statement.<sup>22</sup>

In 1947 Frisch wrote an article in the Norwegian journal *Samtiden*. In the article he wrote:

Studies of the modern economic machinery have made me completely convinced that if this machinery is left to itself, it will according to its nature have to go through convulsive spasms and periodically spread sorrow and misery to large population groups. (Frisch 1947)

Frisch was now convinced that the economic life should be built upon macro-economic planning and a strictly regulated economy. Although he still talked about the necessity of intellectual freedom he became a great admirer of the Soviet economic planning system. In 1958 he wrote:

The depression that the USA (and partly other Western countries) suffers from at present is, in my opinion, further proof of the technical inferiority of a free market economy. It is grotesque that the USA is happy if the national product does not sink when one considers that the Soviet Union has a secure and free business cycle growth of seven or eight per cent each year.<sup>23</sup>

In a later letter (Hanisch and Sæther 2003, 61) he revised these figures in order to claim that the economic growth in the Soviet Union was about ten per cent each year!

The performance of the Norwegian economy in the 1950s and 1960s, with high investment ratios and just average growth, was such that even hardened members of the Oslo School started to have doubt about the system and the policies that were carried out, admitting that something was wrong. In the last available letter from Frisch to Hoff in 1964, Frisch himself admitted that the country had not gained as much as it should from its large investments. However, this was not the failure of the planned economy. He concluded:

My conclusion from this is not that a rational form of economic planning is inferior to a perfectly competitive economy. A system of perfect competition cannot solve all problems; these must be addressed through a rational form of economic planning.<sup>24</sup>

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22. National Library of Norway, Manuscripts Collection, Brevsamling 761A, letter dated November 22, 1941.

23. National Library of Norway, Manuscripts Collection, Brevsamling 761B, letter dated August 11, 1958.

24. National Library of Norway, Manuscripts Collection, Brevsamling 761B, letter dated August 24, 1964.

He blames what he calls “the incompetence of the government” and its support of “a thoroughly naïve and unimaginative form of economic planning” (see Hanisch and Sæther 2003, 61). However, he exonerated all those individuals to whose education he had contributed in the economics programs at the University of Oslo.

It can be said that over the decades of his mature life Frisch grew less and less supportive of classical liberal ideas and attitudes. At the beginning of the 1930s he believed in the benefits of a market economy, although one that in times of crisis should be regulated. By the 1960s he held a firm belief in a centrally planned, highly regulated economy of the Soviet type, although one that should be under full democratic control.

## The eccentric economist

Professor Munthe, who was a colleague of Frisch for many years, contends that Ragnar Frisch in addition to being a great economist also had another side: “He felt like a crusader for his own ideas fighting the reactionists” (Munthe 1999, 131).

As a professor and research director of the Institute of Economics he started his grand project of bringing economics as a science “out of the fog.”<sup>25</sup> He fought against what he called “fictional economics” and claimed that his adversaries, and they were many at the time, belonged to what he called “the unenlightened plutocracy” (Frisch 1961b).

In the 1950s and 1960s Frisch wrote numerous articles in newspapers and journals advocating the advantages of planned economies in comparison with market economies with free trade. He claimed forcefully that the West would soon lose the economic race against Eastern Europe and China.<sup>26</sup> In a chapter on Frisch, Edmond Malinvaud (1999, 564) quotes a remark by Frisch from 1962 that the Soviet Union could “let the West continue in its stubborn planlessness. It will then be lagging behind economically and will in due time fall from the tree like an overripe pear.” Frisch’s opinions provoked response in a number of newspapers, and Frisch responded with harsh language. Whenever someone argued in favour of a free market economy with free trade, Frisch rebuked his statements.

In articles in journals and newspapers Frisch fought fiercely against Norwegian membership in the EEC both at the beginning of the 1960s and at the beginning of the 1970s.<sup>27</sup> His main arguments against the European Community

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25. Frisch used this phrase in a guest lecture, attended by one of the authors, at the University of Oslo during the 1960s.

26. See for example his November 5, 1955 article in the daily newspaper *Arbeiderbladet*, “Langsom takt i Vest, raskere i Øst” (“Slow Pace in the West, Faster in the East”) and his November 3, 1959 article in *Aftenposten*, “Kjetterske meninger om frihandel” (“Heretical Opinions on Free Trade”).

were that it would revive a free market economy, be a *carte blanche* for the financial sector, and that multinational corporations would exploit Norway's resources. Central economic planning, which he strongly advocated, would be completely impossible in "the unenlightened plutocracy" of the European Community. In a preface to a pamphlet written by Leif Johansen in 1961, Frisch ignored what he impressed upon his students. In a figure, which has no basis of any kind in analysis, he predicted that if Norway became a member of the EEC it would at the very best have low growth rates. By staying outside and developing a socially planned economy Norway could achieve a fabulous growth (Frisch 1961a).

Bjerkholt (2006, 349-350) writes, "Frisch, after voting Labour for the last time in 1961, became a bombastic supporter of the Socialist People's Party (Sosialistisk folkeparti)." In an article in *Arbeiderbladet* in 1962, Frisch used extremely strong words against members of the Government in general and the Foreign Minister in particular, claiming that they had deluded the Norwegian public.<sup>28</sup>

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27. Norway negotiated for a possible membership in the EEC (European Economic Community) in 1960–62 and for a possible membership in the EC (European Community) in 1970–72. The negotiations in 1960–62 were broken because of internal Community matters. The second time the Norwegians turned down membership in a referendum.

28. *Arbeiderbladet*, November 28, 1962.

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## Clive W. J. Granger

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Clive William John Granger (1934–2009) was born in Wales and raised in England. His grandfather was a cobbler and his father was a commercial traveller. His father served in the RAF during WWII in England and North Africa. During the War, Granger moved frequently. In primary school he found success in mathematics but “not much else” (Granger 2004). His father’s return from the war took the Granger family to Nottingham where Clive decided to concentrate on physics and pure and applied mathematics in the sixth-form at West Bridgford Grammar School. He applied to the University of Nottingham for its first intake of a joint degree program in mathematics and economics (ibid.).

Granger claimed that his two first-year courses in economics were the only formal training he ever received in economics. He switched to mathematics full-time and obtained his First in the subject (Granger 2009, 358). Granger then earned his Ph.D. in statistics in 1959 and spent a year at Princeton working on Oskar Morgenstern’s Time Series Project. That developed into a book, *Spectral Analysis of Economic Time Series* (1964), written with Michio Hatanaka (Granger 1997, 258-259).

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

Granger recalled an encounter between real-world politics and economic research:

One exciting period occurred in 1960, when Morgenstern was asked by President Eisenhower to very quickly produce a report on “bargaining.” The president had agreed to meet with the Russian premier for a debate, but he decided that he did not know how to bargain. All game theorists at Princeton and many others in the project dropped all work for a couple of weeks to consider the topic. We did find a few relevant ideas, but then the U-2 spy plane incident occurred, so the U.S.-Russian meeting was canceled. At least I discovered that economics could potentially be both very important and exciting when coupled with politics, but that eventually the political aspects of a situation would dominate. (Granger 2009, 359)

Granger became a junior lecturer in statistics in 1956 and was on the Nottingham faculty for two decades. In 1974 he moved to the University of California at San Diego (Granger 2004). With Robert Engle, Granger won the 2003 Nobel Prize in Economics “for methods of analyzing economic time series with common trends (cointegration).”

Timo Teräsvirta writes that Granger:

...contributed to many areas in econometrics. They include the analysis of non-stationary time series, causal relations between economic variables, long memory, nonlinearity, forecasting economic time series, modelling stock prices and volatility, and price formation. (Teräsvirta 2008)

Before beginning his Prize-winning work on cointegration, Granger defined causality in a specific way that is now known as Granger causality, under which a “time series is said to ‘Granger-cause’ another if its past values improve the prediction one would get just from the past values of the first time series” (Hoover 2008).

Granger has been described as a pragmatic Keynesian, “not hide-bound by theory or ideologies” (Casey 2008). In 2008, Granger commented on a number of policies in Ireland. He said that a short-term pay freeze could be helpful, although low-income individuals should be exempt and consumption should be stimulated; he also advocated low taxes and deficit finance to help stimulate the economy (ibid.). Granger signed a petition supporting an increase in the minimum wage in the United States (Hedengren et al. 2010).

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## Trygve Haavelmo

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Trygve Haavelmo (1911–1999) was born in Skedsmo, Norway, and grew up in Stømmen. Haavelmo graduated from high school in 1930, during the Great Depression. He intended to pursue his university degree in philology or engineering but decided on economics (Bjerkholt 2006, 319).

Haavelmo earned his undergraduate degree in economics from the University of Oslo in 1933, studying under and greatly influenced by Ragnar Frisch. Haavelmo became a research assistant in Frisch's Institute of Economics between 1933 to 1937. Over the following decade, Haavelmo had a variety of appointments and positions in Norway and the United States. Germany's occupation of Norway kept Haavelmo in the United States longer than anticipated (Bjerkholt 2006).

Olav Bjerkholt suggests that Haavelmo worked to shore up ideas put forward by John Maynard Keynes:

A large proportion of Haavelmo's theoretical work during the war concerned macroeconomic questions, based, not least, on Keynes. He was not convinced of the excellence of Keynes's theory in every area and propounded the need to "dynamise Keynes". Keynesian theory also informed a paper on fiscal policy in a situation with unemployment, which he published towards the end of the war. Haavelmo became known as the father of the balanced budget multiplier theorem. (Bjerkholt 2006, 346)

After the war, Haavelmo spent a year at the Cowles Commission in Chicago before returning to the University of Oslo and becoming a professor there for thirty-one years. He was awarded the Nobel Prize in 1989 "for his clarification of the probability theory foundations of econometrics and his analyses of simultaneous economic structures."

Haavelmo seems never to have expounded his political views. His fellow Oslo professors Karl Moene and Asbjørn Rødseth (1991, 175) remember, "Although intensely interested in policy questions, he has never entered public debate and has always avoided publicity."

Still, Haavelmo certainly had an impact on Norway's policies. In 1945 he joined the Labour party committee for economic policy. Two years later he became chief of Norway's finance ministry, and he was key in Norway's reconstruction path (Moene and Rødseth 1991, 177). His students, as well, often went into government service, and "[f]or a couple of decades there was hardly a cabinet in Norway without a minister who had been taught by Trygve Haavelmo" (Christiansen and Rødseth 2000, 182).

While involved in politics, Haavelmo advocated "for more market-oriented policies with less price regulation and fewer subsidies" (Christiansen and Rødseth 2000, 185). In his economic work, he opposed rent-seeking as being inefficient (*ibid.*, 183). Bjerkholt (2006, 348) writes: "Politically, Haavelmo remained closely attached to the Labour Party all his adult life. He hardly ever considered a career in politics, but he always displayed a strong interest in policy-making and an ability for giving constructive advice." Bjerkholt describes Haavelmo's activities in government service and advising, and continues:

In the early post-war period Haavelmo enjoyed good relations with the leading Labour politician and future prime minister Trygve Bratteli. ... Following Labour's electoral defeat and return to the opposition benches in 1965, Haavelmo agreed to sit on the Labour Party's economic policy committee, which was headed by Bratteli. There was one basic political question on which they could not agree. Haavelmo,

like Frisch, actively opposed, if somewhat less vociferously, Norway's prospective membership of the EEC. Membership returned to the political agenda in the early 1960s, and again in 1972, with the referendum. Haavelmo remained a member of Labour's economic policy committee for a good many years after the referendum. Haavelmo's contributions were few, but each one was a well-thought-through, concise and pedagogically brief lecture. (Bjerkholt 2006, 349)

Haavelmo expressed concerns about sustainability with large populations, particularly because of accumulating pollution (Haavelmo and Hansen 1992, 40; see also Christiansen and Rødseth 2000, 190). The tension between economic growth and use of natural resources was a common theme in his work (Moene and Rødseth 1991, 177). Haavelmo had a love of nature, which he at times expressed in art: "A painting of a bulldozer threatening some flowers reveals his preoccupation with the environment and the future of the earth. Proximity to nature was of great importance to him." (Christiansen and Rødseth 2000, 182).

Haavelmo saw economic systems as endogenous—best decided by the preferences of the people in a society (Moene and Rødseth 1991, 189). In his Nobel lecture, Haavelmo avoided any policy discussion, sticking to proposing a new way to approach economics, namely, analyzing society instead of individual choice: "Starting with some existing society, we could conceive of it as a structure of rules and regulations within which the members of society have to operate" (Haavelmo 1992).

Sukhpal Singh and Vinod Vyasulu read Haavelmo's work as leaning toward planning, rather than *laissez-faire*: "Although Haavelmo himself does not get into issues of ideology and politics, it appears to us that many of the conclusions that follow from his models would tend to suggest a framework of economics that we would call a planning framework as opposed to a free market framework" (Singh and Vyasulu 1989, 2649).

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## John C. Harsanyi

by Daniel B. Klein, Ryan Daza, and Hannah Mead

John Harsanyi (1920–2000) was born in Hungary. He was an only child born of parents who converted to Catholicism from Judaism (Weymark 2008, 247). He graduated from the Lutheran Gymnasium in Budapest, alumni of which include John von Neumann. The year Harsanyi graduated, 1937, he won the First Prize in Mathematics at a nationwide competition for high school students. With the influence of Hitler's Germany on the rise in Hungary, Harsanyi decided to study pharmacy in order to obtain a military deferment and thus avoid forced labor on behalf of the Hungarian army—but when Germany invaded in 1944, he was consigned to a labor unit. Fortunately, Harsanyi managed to escape just as his unit was being deported from Budapest to a Nazi concentration camp. He found refuge in a monastery cellar provided for him by a Jesuit priest he had known (Harsanyi 2009, 223-224).

Harsanyi studied philosophy and developed a principle of rule utilitarianism, favoring a society that would “recognize morally protected individual rights and personal obligations that must not be violated except in some very rare and very special cases” (Harsanyi 1985a, 55). Harsanyi's early economic work focused on welfare economics (Myerson 2008), but he won the Nobel Prize in 1994 along with Reinhard Selten and John Nash “for their pioneering analysis of equilibria in the theory of non-cooperative games.”

After World War II, Harsanyi was able to return to the University of Budapest, where he earned his Ph.D. in philosophy in 1947. Between 1947 and 1948, he served as a junior faculty member at the University Institute of Sociology.

There, he met a student and his future wife, Anne Klauber. Harsanyi, an anti-Marxist, “felt compelled to coin bad jokes at the expense of my Communist colleagues” (Harsanyi 2009, 224). He soon found, however, that his views were making Hungary increasingly dangerous for him: “Eventually, the political situation no longer permitted them to employ an outspoken anti-Marxist, as I was, and in June of 1948 I had to resign from the Institute” (ibid.). Klauber stayed behind to finish her studies, but, Harsanyi says, “Anne...[was] continually harassed by her Communist classmates, who urged her to break up with me because of my political views. ... [T]he harassment made her realize, before I did, that Hungary was becoming a completely Stalinist country. The only sensible course of action was to leave Hungary” (ibid.).

Harsanyi and Klauber slipped across the Hungarian border in 1950 and managed to get to the American zone in Vienna. They eventually made their way to Sydney where they were married in 1951. Because Harsanyi’s English was not good and his Hungarian university degrees in pharmacy and philosophy were not recognized in Australia, he had to work in a factory while taking night classes to earn a master’s in economics from the University of Sydney, which he completed in 1953. He earned the Rockefeller Fellowship in 1956, which allowed him to come to the United States and earn his Ph.D. at Stanford. There, Harsanyi began working with his dissertation advisor, Kenneth Arrow, who recommended that he study mathematics and statistics. In 1958 his visa expired and he had to return to Sydney. With recommendations from Arrow and James Tobin, Harsanyi returned to America through an appointment at Wayne State University in Detroit in 1961. Finally in 1964 he moved to a position at the University of California at Berkeley where he spent most of his career (Harsanyi 2009, 224-228).

Of his dangerous early life, Harsanyi said:

These experiences of course gave a special bias to my interest in social and political questions, because I realized how important it is to live in a democratic society, and more important, in a liberal society in which people are free to express their opinions, free to associate with other people, and free to lead the life they want to lead. (quoted in Haas 1994)

Roger Myerson summarizes Harsanyi’s philosophy:

[W]e must imagine ourselves in an initial position before social roles have been assigned, when we could only anticipate getting the role of someone drawn at random from the whole population. Thus, ethical decision-making involves an essential element of risk, and we naturally

get a social welfare function equal to the average utility of all members of society. (Myerson 2008)

Much of Harsanyi's work was on welfare and utility. John Nash's work on cooperative and noncooperative games inspired Harsanyi to begin mathematically analyzing game theory (Harsanyi 2009). Harsanyi developed Nash's formulations to include asymmetric information, such as in negotiations (Haas 1994).

When Harsanyi worked with nine other game theorists to advise the United States in negotiations with the Soviet Union, he said, "We discovered that we couldn't advise them on this matter because these negotiations represented a game with incomplete information, in which each side knew little about the other side" (quoted in Haas 1994). Harsanyi proceeded in later years to develop game theory with an eye toward making it more effective in real-world situations.

On specific policies, Harsanyi, ever valuing democracy, looked favorably upon governmental efforts to increase voting participation (Harsanyi 2001, 398). He also saw great appeal in disarmament, but thought that unilateral disarmament would be detrimental (*ibid.*, 399).

Always driven by larger sociological issues, Harsanyi also applied game theory to moral analysis of societal organization:

[O]nce our game-theoretical model of society makes proper allowances for moral and ideological motivations, we must conclude that social institutions are *neither* mere expressions of the common moral values of the society *nor* mere expressions of the interests of the strongest group. Rather, they always represent a *compromise* among many different social interests and many different moral concerns and political ideologies. In some societies they will come closer to representing a moral consensus of the society than in others. In such societies, many of these social institutions will have a strong *prima facie* claim to moral authority—*just as Rawls has suggested*.

In other societies, the moral depravity of existing social institutions may be overwhelming. But, even in a very corrupt society, *some* laws and institutional rules will be morally binding under normal conditions. (Harsanyi 1978, 227-228, emphases in original)

He continued:

But it is important to understand that in all but the most depraved societies, civil disobedience must be the *exception*, rather than the rule; and justification of armed resistance must require even more exceptional circumstances. ...

In actual fact, the moral force of our social institutions is our main defense against tyranny, and against a state of barbarism like Hobbes's "state of nature" with a war of every man [*sic*] against every man—as well as against a civil war, a state of affairs not much better than that. (Harsanyi 1978, 228)

Harsanyi believed that if a people truly sought the common good, reason would show the correct moral code was the rule utilitarian one (Harsanyi 1985a, 55). He presumably saw himself as applying such utilitarian analysis in his opposition to socialism.

Harsanyi noted that capitalist workers are freer than those in a socialist society, in that they have more options for employers—socialist workers "face one all-powerful employer, the government, which combines all political power with all economic power" (1977, 427). Harsanyi emphasized "the great importance that the existence of a number of alternative employers in capitalist countries has for our civil liberties" (*ibid.*).

In a paper intensely critical of the socialist philosopher G. A. Cohen, Harsanyi strongly criticized academic defenders of socialism:

Unlike Dr. Cohen, I find our historical experiences in this matter to be rather disappointing. After many years of socialism, in most socialist countries, the profit motive, together with black marketeering and bureaucratic corruption, seems to be as powerful as ever; nationalism, anti-semitism, color prejudice, male chauvinism, and ideological intolerance are extremely common; and, even though the demand for luxury consumption is largely frustrated by the unbelievable inefficiencies of the socialist economy, the very demand for luxuries and the corresponding shallow materialistic attitudes are certainly no weaker in socialist countries than they are in the capitalist West. I for one can nowhere discover the glorious face of the "New Socialist Man." (Harsanyi 1977, 428)

In the same paper, Harsanyi writes: "I find it rather surprising how little appreciation is shown by most socialist writers for the great importance that the existence of a number of alternative employers in capitalist countries has for our civil liberties" (1977, 427).

On "fairness" and political institutions, Harsanyi wrote:

[S]ociety has a very important interest in having its members respect each other's basic rights and institutional obligations—in other words, in having its members observe the basic standards of justice.

Yet, this coin also has another side. Preoccupation with minor violations of our rights, real or apparent, and the widespread passion for litigation so prevalent now in the United States, are highly counterproductive social practices. Indeed, not only is it often socially preferable if people put up with minor injustices, instead of engaging in endless litigation, it is often socially *desirable* to have social institutions whose very success depends on having some 'unfair' practices built into them.

For instance, the effectiveness of the free enterprise system (and even that of a socialist system) crucially depends on the fact that a successful business executive will be promoted and an unsuccessful one demoted. Yet, this is often 'unfair,' because this success or failure may be unrelated to the business executive's own effort and ability, and may be a matter of sheer luck. Likewise, in many parliamentary systems, a cabinet minister must take political responsibility for his subordinates' mistakes, regardless of whether he is really responsible for them by common sense criteria or not. (Harsanyi 1985b, 126).

Harsanyi adds:

Again, it is hard to deny that proportional representation is the 'fairest' electoral system, and the only one really 'fair' to small parties. But this is not necessarily a convincing argument for proportional representation. From a utilitarian point of view, a question much more important than such 'fairness' considerations is, 'which particular electoral system is more likely to yield a stable and effective government, one able to take unpopular measures when they are called for on economic issues, on minority rights, on foreign policy and defense, etc?' On this score, it seems to me that two-party systems, with the two parties from time to time alternating in government, have been in most cases far superior. (Harsanyi 1985b, 127)

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## Friedrich A. Hayek

by Daniel B. Klein

Friedrich A. Hayek (1899–1992) was one of the leading classical liberal thinkers of the twentieth century. The works that are most notable for his political thought are *The Road to Serfdom* (1944), *Individualism and Economic Order* (1948), *The Constitution of Liberty* (1960), the three volumes of *Law, Legislation and Liberty* (1973; 1976a; 1979), and *The Fatal Conceit* (1988). Hayek's scholarship also reaches into psychology and the history of ideas. In 1974 he shared the Nobel Prize with Gunnar Myrdal.

Hayek experienced two ideological migrations in the classical liberal direction. The first was dramatic and came when Hayek was in his early to mid twenties. The second was gradual and not dramatic, taking place during the several decades of his fully mature years.

Hayek served briefly in the Austrian army during the First World War and enrolled at the University of Vienna in 1918. He described the political outlook of his generation:

We felt that the civilization in which we had grown up had collapsed.  
We were determined to build a better world, and it was this desire

to reconstruct society that led many of us to the study of economics. Socialism promised to fulfil our hopes for a more rational, more just world. (Hayek 1981/1978, xix)

In a private letter of 1962, Hayek wrote, “It was a lay enthusiasm for Henry George which led me to economics” (quoted in Andelson 2000, 110). Bruce Caldwell (2004, 141) writes of Hayek’s political affiliations during his student days: “Like many of his contemporaries, his sympathies lay with the Left. Describing himself as a bit of a Fabian socialist, he and some friends once tried to organize an Austrian Democratic Party that would lie between the Catholics, on the one side, and the socialists and Communists, on the other.”

During his university studies in Vienna, Hayek studied especially with the economist Friedrich von Wieser:

I was attracted to [Wieser]... because unlike most of the other members of the Austrian School [of economics] he had a good deal of sympathy with [the] mild Fabian Socialism to which I was inclined as a young man. He in fact prided himself that his theory of marginal utility had provided the basis of progressive taxation, which then seemed to me one of the ideals of social justice. (Hayek 1983, 17)

Hayek received a law degree in 1921 and a degree in political science two years later.

Ludwig von Mises was an unpaid lecturer at the university, though Hayek did not interact with him then. Hayek recalled a negative first impression of Mises: “I had looked in at one of his lectures and found that a man so conspicuously antipathetic to the kind of Fabian views which I then held was not the sort of person to whom I wanted to go” (Hayek 1978a). But in 1921 Hayek took a government position in an office where Mises was a director (Kresge 1994, 6). After spending a year in New York (1923–24), Hayek, age 25, returned to Vienna and joined Mises’s *Privatseminar*, a regularly scheduled discussion group. Mises had articulated a highly libertarian view of liberalism, and he had ferociously challenged socialism in a major work (Mises 1981/1922). Hayek tells of its impact:

[I]t was a great surprise to me when this book, *Socialism*, was first published. For all I knew, [Mises] could hardly have had much free time for academic pursuits during the preceding (and extremely busy) ten years. Yet this was a major treatise on social philosophy, giving every evidence of independent thought and reflecting, through Mises’ criticism, an acquaintance with most of the literature on the subject. ... [I]ts impact was profound. It gradually but fundamentally altered the outlook of many of the young idealists returning to their university

studies after World War I. I know, for I was one of them. ... *Socialism* told us that we had been looking for improvement in the wrong direction. (Hayek 1981/1978, xix-xx)

Caldwell (2004, 141) writes that Hayek “had no truck with Marxism,” and quotes Hayek: “I was never captured by Marxist socialism. On the contrary, when I encountered socialism in its Marxist, frightfully doctrinaire form, and the Vienna socialists, Marxists, were more doctrinaire than most other places, it only repelled me.”

Until his departure for London in 1931, Hayek was in regular contact with Mises. As Jeremy Shearmur (1996, 34) notes, “Mises’ impact on Hayek was profound.” It would appear that Hayek’s first migration occurred after his formal education, especially during the years when he was 23 to 26 years old. Years later, Hayek likened the effect of Mises’s work to “shock therapy” that “converted me to a consistent free market position” (Hayek 1976b). Hayek also told, in a 1944 address to the students at the London School of Economics, of “the extremely painful process of disillusionment which led me to my present views” (Hayek 1991/1944, 47). Hayek (1976b) perhaps overstated the consistency of his early “free market position.” It is clear that by age 26 or 27 he had adopted classical liberal tendencies like those of Mises, and such tendencies surely account in part for Hayek’s own movement away from technical economics and toward the broad intellectual defense of liberalism. In *The Road to Serfdom* (1944), Hayek explores the affinities between fascism and economic planning. In *The Constitution of Liberty* (1960), Hayek offers a broad account of liberal principles and a defense of those principles. These works are not, however, highly outspoken or radically libertarian. They contain passages that seem to favor government activism beyond the functions of the night-watchman state.

In *The Road to Serfdom*, Hayek wrote:

There is no reason why in a society which has reached the general level of wealth which ours has attained the first kind of security should not be guaranteed to all without endangering general freedom. There are difficult questions about the precise standard which should thus be assured; there is particularly the important question whether those who thus rely on the community should indefinitely enjoy all the same liberties as the rest. An incautious handling of these questions might well cause serious and perhaps even dangerous political problems; but there can be no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody. ...

Nor is there any reason why the state should not assist the individuals in providing for those common hazards of life against which, because of their uncertainty, few individuals can make adequate provision. Where, as in the case of sickness and accident, neither the desire to avoid such calamities nor the efforts to overcome their consequences are as a rule weakened by the provision of assistance—where, in short, we deal with genuinely insurable risks—the case for the state’s helping to organize a comprehensive system of social insurance is very strong. There are many points of detail where those wishing to preserve the competitive system and those wishing to supercede it by something different will disagree on the details of such schemes; and it is possible under the name of social insurance to introduce measures which tend to make competition more or less ineffective. But there is no incompatibility in principle between the state’s providing greater security in this way and the preservation of individual freedom. To the same category belongs also the increase of security through the state’s rendering assistance to the victims of such “acts of God” as earthquakes or floods. Wherever communal action can mitigate disasters against which the individual can neither attempt to guard himself nor make provision for the consequences, such communal action should undoubtedly be taken. (Hayek 1944, 120-121)

Hayek remarks that there is “a wide and unquestioned field for state activity” in the provision of collective goods (1944, 39, see also 18).

Hayek reiterated his support for government guaranteeing minimum incomes in a radio interview of 1945 (Hayek 1994, 114), and he indicated several other areas for activist government. He said that laws limiting maximum work hours and minimum wages are “permissible,” though presumably not necessarily desirable, in his system of proper law (*ibid.*, 112). When asked about the Tennessee Valley Authority, Hayek responded: “There is a great deal of the TVA to which no economist in repute, and certainly not the laissez-faire people, will object. Flood control and building of dams are recognized functions of the government” (*ibid.*, 113). Regarding the monetary system, Hayek said: “That the monetary system must be under central control has never, to my mind, been denied by any sensible person. It is part of the framework within which competition can work” (*ibid.*, 116).

In *The Constitution of Liberty* (1960), Hayek countenances such governmental actions as safety regulations on buildings (p. 225), poor relief (285), assistance to the “indigent, unfortunate, and disabled” (257), mandatory participation in social insurance, though he opposed a unitary government scheme (286), health pro-

grams and the dissemination of knowledge (257, 365), school vouchers (381), the monetary system (223, 327), the provision of “parks and museums, theaters and facilities for sports” (259), and “preservation of natural beauty or of historical sites or places of scientific interest” (375). Hayek is not necessarily favoring government action in these cases, and he says clearly that amenities such as parks are better handled “by local rather than national authorities” (1960, 259). Hayek says government ought to deny the validity of “contracts in restraint of trade” (ibid., 279).<sup>29</sup>

It seems, however, that Hayek later became somewhat more decidedly libertarian. In the preface to the 1976 edition of *The Road to Serfdom*, he expresses regret about positions taken when writing the book in 1944: “I had not wholly freed myself from all the current interventionist superstitions, and in consequence still made various concessions which I now think unwarranted” (Hayek 1976c, xxi). In a separate work, *The Denationalisation of Money* (1990/1976), Hayek elaborated a new-found radicalism on one issue in particular:

I have now no doubt whatever that private enterprise, if it had not been prevented by government, could and would long ago have provided the public with a choice of currencies, and those that prevailed in the competition would have been essentially stable in value and would have prevented both excessive stimulation of investment and the consequent periods of contraction. (Hayek 1990/1976, 14)

In the third volume of *Law, Legislation and Liberty* (1979) Hayek showed more inclination to look to voluntary association for solutions:

It should be remembered that long before government entered [various fields of social services], many of the now generally recognized collective needs were met by the efforts of the public-spirited individuals or groups providing means for public purposes which they regarded as important. Public education and public hospitals, libraries and museums, theaters and parks, were not first created by governments. And although in these fields in which private benefactors have led the way, governments have now largely taken over, there is still need for initiative in many areas whose importance

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29. And yet, cf. Hayek (1960, 265): “Current policy fails to recognize that it is not monopoly as such, or bigness, but only obstacles to entry into an industry or trade and certain other monopolistic practices that are harmful. Monopoly is certainly undesirable, but only in the same sense in which scarcity is undesirable; in neither case does this mean that we can avoid it. It is one of the unpleasant facts of life that certain capacities (and also certain advantages and traditions of particular organizations) cannot be duplicated, as it is a fact that certain goods are scarce. It does not make sense to disregard this fact and to attempt to create conditions ‘as if’ competition were effective.”

is not yet generally recognized and where it is not possible or desirable that government take over. (Hayek 1979, 50)

One of the major themes of Hayek's later works is the Upper Paleolithic basis of human genes and basic instincts, and how modern politics might be a reassertion of certain bent and mentalities evolved during the millions of years of life in the small band (Hayek 1967/1963; 1976a; 1978b; 1979, 153-176; 1988). Such reassertions, he said, are not, however, suited to the modern world; hence he used the term *atavism* in describing such reassertions. It is plausible that the more Hayek dwelled in the atavism thesis about modern politics, the more he suspected that unfortunate biases lay behind rationales for the governmentalization of social affairs, even when the rationales are widely accepted and endorsed by experts.

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## James J. Heckman

by Daniel B. Klein and Ryan Daza

James Heckman (1944–) was born in Chicago, of a family of modest means. Heckman was raised under a tradition of fundamentalist Protestant Christianity. At the age of eight he was a child minister who gave sermons on Sunday evenings. By fifteen, however, he decided against becoming a minister (Heckman 2009, 300-301). Heckman described the change in his religious attitudes:

*[jump to navigation table](#)*

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

I respected the sincerity of the beliefs held by my family and by members of my congregation, but I no longer shared them. My doubts were later reinforced by the virulent anti-Catholic rhetoric produced by many fundamentalist churches in the 1960 campaign of John F. Kennedy. The intolerance, bigotry and unwillingness of most of the elders in my church to discuss ideas left me deeply dissatisfied. I found that I was unable to accept authority qua authority, a trait that has characterized me ever since. At the same time, my break with the church isolated me from my family and friends. I learned to go it alone without much support at an early age. Having a deep faith and then abandoning it because of my intellectual doubt was a wrenching experience. At the same time, I learned early to live off my own intellectual and emotional resources. My ability to go it alone, without the approval of others, has been a major asset to my career. I learned to stick to my guns irrespective of what other around me thought. (Heckman 2009, 302)

Heckman continued:

Both my sister and I...received strong encouragement from our parents to get the college degrees that they lacked. There were books around our home, and my mother took us on frequent trips to museums, cultural events, and historical sites. The first institution of higher learning I ever saw was the University of Chicago, and my father always spoke with admiration about it. Thus began my relationship with an institution that has had a profound influence on my life. (Heckman 2009, 300)

Heckman (2009, 302) writes of events in his high school years: “At about the same time I broke with fundamentalist Christianity ... a whole new world of ideas opened up to me thanks to the accidental introduction of Frank Oppenheimer into my life. Frank Oppenheimer was the brother of J. Robert Oppenheimer, the famous physicist and head of the Manhattan Project.” Heckman notes that Frank Oppenheimer “had been a member of the Communist Party” (ibid.). It is unclear whether Heckman was affected by Frank Oppenheimer’s ideological outlook—Heckman speaks of his exposure to him as a “truly life-transforming” experience—but clearly he was affected by Oppenheimer’s scientific outlook. “The objective nature of physics and the ability of those laws of physics to predict empirical irregularities is a splendid alternative to a religion and authority I no longer accepted” (ibid., 303). Heckman also stated: “I have moved from religion to

economics. I believe that there is a provisional truth. Not an absolute unchanging truth, but a sense that there is a reality out there waiting to be discovered. There is something out there that can be understood with data and models. ... I found an alternative to religion in empirical research” (Heckman 2010a, 550, 551).

Heckman stumbled across economics while majoring in mathematics and physics at Colorado College, a liberal arts school. Heckman reflected on his drift into economics:

After a few semesters [at Colorado College], I found the physics there disappointing and gravitated towards math and just about everything else. The liberal arts environment let me try my hand at many things: anthropology, philosophy, English literature, political science, and economics. I edited the student paper, protested civil rights abuses, fought anti-semitism, and anti-black restrictive policies by fraternities and took a trip through the segregated South with my Nigerian roommate, which led to some hair-raising encounters in Birmingham, Alabama, and Hattiesburg, Mississippi, which we wrote about in student newspapers. I also interacted with the organizers of the Freedom School, a libertarian organization near Colorado College where I learned about Friedrich Hayek, Frédéric Bastiat, Ayn Rand, and Milton Friedman. (Heckman 2009, 304-305)

For a course on economic development, Heckman read Adam Smith and David Ricardo, as well as such modern economists as Arthur Lewis. He says that Paul Samuelson’s *Foundations of Economic Analysis* had a major impact on him: “It demonstrated to me that economics could be as rigorous and empirically relevant as physics. The theorem-proof format of the book appealed to my mathematical side” (Heckman 2009, 305). The subject piqued his interest, and fit well with his background in policy debate and love of history (Heckman and McFadden 2000). Drawn by Lewis’s work, Heckman went to Princeton to pursue his Ph.D. in economics. He drifted away from development economics and into labor econometrics.

Between Colorado and Princeton, Heckman “briefly attended the University of Chicago in economics. I found Milton Friedman fascinating and also enjoyed the lectures of Harry Johnson” (Heckman 2001). He chose Princeton over Chicago, however, because he did not like “the impersonality of Chicago or the cult of Friedman that characterized the graduate program at that time” (Heckman 2009, 307). He added: “Although I greatly valued my interactions with Friedman and found him brilliant, open, and stimulating, I did not like the uncritical, almost religious devotion to his ideas by many of my fellow students. The followers were

much worse than the master and created a subculture imbued with religious zeal reminiscent of the zeal of the groups I had recently rejected” (ibid., 307). At Princeton, Heckman found the intellectual environment stimulating. “The econometrics group was young and interactive. The ethos at Princeton at that time encouraged the application of economic theory and econometric methods to solve policy problems” (Heckman 2001).

Heckman states that his wife, Lynne Pettler-Heckman, has had a big influence on him: “She is trained in sociology. She worked on occupational attainment and social networks. ... Talking to her and reading her books and journals, I got a broad education in social science. ... A long time ago, my wife and I were going to some event. We got into an argument and we were overheard. I was making some point and her rebuttal was, ‘Just because Milton Friedman said it is correct, doesn’t make it correct.’ Her remark became known at the time among the students at Chicago. So she has always been a very tough critic, and in that sense, very helpful” (Heckman 2010a, 553).

After completing his Ph.D. work, Heckman joined the faculty at the University of Chicago. Heckman reflected on the influence of Chicago:

Chicago...had an aversion to the technocratic vision of economic policy making then favored by many leading schools. Rather than endorsing the concept that a brilliant elite should make policy for the masses, Chicago believed in the innate common sense of the common man if an argument were presented clearly. There was the belief that anything really important could be conveyed in a simple, effective manner. Friedman’s steady stream of clearly written *Newsweek* policy columns was the best demonstration of this approach to public policy. People should be educated to make informed choices, not managed by technocrats who know more than they do. (Heckman 2009, 320-321)

John J. Donohue writes that Heckman was less outspoken than some of his University of Chicago counterparts (Donohue 2002, 29). Donohue, a social democrat, describes Heckman in relation to Friedman and Stigler as follows:

Heckman’s manner of letting truth trump ideology makes him the ideal scholar and sets him apart from other University of Chicago Nobel luminaries such as Milton Friedman and George Stigler, who, despite their very important contributions to economics, were at times ruled by their rigid conservative ideologies. (Donohue 2002, 29)

Heckman finds himself outside the economics mainstream: “For a variety of reasons, I have always felt myself an outsider. I don’t know how to classify

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myself in economics. I am a loner. I do not like groupthink, which, if anything, has become more important in economics. In addition, a lot of the values I hold are not the mainstream values in the profession” (Heckman 2010a, 557). Heckman also eschews the idea of the economist-cum-public intellectual:

First of all, I think most public intellectuals are frauds. I know there are people around who believe they have answers to almost every question. I wish that were true, that they did have valid answers. They don't and I don't. ... The scale of publicity and the interaction with journalists has increased in our profession. Economists have gone public. Economists are making bold and often unsupported statements. The amazing thing is that the public listens to some of these people. In truth, they really don't have much to say. But how would a journalist know that? As a group, journalists are very ignorant people. They don't have a clue about economics. They want somebody to give them something smooth and simple. The danger is that there is an ample supply of people willing to give simple answers to hard problems. This depreciates the reputation of economics as a serious empirical science. I am not a party to that. I could be, you could be. There are lots of forums that I have turned down routinely. Within a year or so of winning the Nobel Prize, I realized that what I wanted to do was what I had been doing before I won, which was basically being an academic and discussing ideas and talking with people whom I respect, not masses of people who are impressed by some award. (Heckman 2010a, 569, 571)

In an interview Heckman was asked if economics was a science. Heckman responded:

By and large no. I wish it were and I think there is a group of us who have a vision of economics as a science. I hope that economics will become a science. When I see some of the popular books that are out there, the cute papers, the *New Yorker*-style articles that have become common (they're perfect for coffee tables but not for science labs), I get depressed about the future of economics. And I get depressed about some of the younger people who get drawn into being clever or cute. Cuteness sells in some quarters. Journalists like it. The cute and the coy seem more prevalent than in the past.

I'm lucky. When I entered economics, there was a belief that economics was a science. Like I was saying earlier, with the success of

the Kennedy tax cuts in the early 1960's, it seemed that economists could solve the problem of the business cycle, and knew a lot about the economy. The word used then was "fine tuning." It was thought that economists could solve many social problems. The Nobel Prize in economics was established in that era. That pretense to knowledge later blew up in our faces. What has happened in a lot of areas in economics is either degeneration to cuteness or formality; formalism has replaced science in many quarters. Both responses evade economic reality.

Formal economics solves problems, gives logically consistent solutions, and is happy to stop at that. I respect this approach because it is intellectually well defined. It sharpens thinking, can guide empirical work, and can suggest hypotheses. Economic theory is very important. However, some if it is like philosophy, it's like mathematics. It's very intellectually interesting, and I learn from it, but it's not science because it's not making contact with data. However, when it stimulates empirical work, it is science. On the other hand, some people who make contact with data view empirical analysis as an exercise in the cute: producing something scintillating, but not something with lasting value. It's not science. It's journalism. (Heckman 2010a, 572-574)

Heckman sees microeconometrics as data- and policy-driven (Heckman 2000, 674). In his econometric work, Heckman developed a way to deal with what is known as the self-selection problem that leads to biased data samples. In 2000, he received the Nobel Prize in Economics, along with Daniel McFadden, "for his development of theory and methods for analyzing selective samples."

Much of Heckman's work has focused on policy analysis. One enduring focus of Heckman's econometric research has been discrimination, an interest sparked in his youth. In a 1989 article, Heckman and Brook Payner found that following the Civil Rights Act, black employment and wages rose suddenly (Donohue 2002, 30). Donohue reports that the work of which Heckman "was most proud was his evaluation of the impact of title VII" of the Act (*ibid.*, 29-30). Heckman also has analyzed racial differences in economic outcomes. He found that the black-white wage gap has not fallen to the extent that others have claimed, noting that most of the change was due to black workers leaving the labor force (Heckman 2000, 699-700).

Heckman has recently branched into studying education. He says that although he respected the motivation behind the Great Society and other social policies to address poverty, he thinks they failed. He said:

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Giving people money to change poverty and hopefully raise the standards of the next generation didn't seem to be doing much good. ... The poverty was parenting. Of course, when the kid is starving and doesn't get any iron, then of course money would matter. But we're not typically at that level; it's much more what the quality of the early environments are. (Heckman 2013a)

Heckman commented elsewhere:

The era of the 1960s was one of great optimism. Many thought that Lyndon Johnson's "War on Poverty" was going to eliminate all poverty, not just between blacks and whites, but throughout the entire society. One of my great surprises was the failure of many of its programs. In fact, many things really didn't change that much. Some things did change. Overt discrimination definitely ended. It was amazing how quickly that happened.

Much later I wrote about this change in a paper about South Carolina in Butler et al. (1989) and Heckman and Payner (1989). But I have to admit my ulterior motive. When I started that work on South Carolina, my motive was to follow the Chicago school line, which was that social change was not that important a factor in black economic progress. I thought blacks were getting more educated, and that there were secular forces that would have ended segregation without any need for government intervention. George Stigler had very strong political views that government could do little good. By the time I was studying the South Carolina data, I was on the Chicago faculty.

Any careful look at the data actually shows a big break in the time series, showing changes in relative black economic status around the time of the passage of the 1964 Civil Rights Act. There is no way around that fact. I spent years trying to show otherwise, and finally I said, "No, I can't do it." (Heckman 2010a, 551-552)

High-quality education, Heckman says, bears strong returns to both society and individuals (Heckman 2013b). In 2001, Heckman co-authored a paper on high-school dropouts and found GED recipients had lower outcomes than other dropouts. "Our finding," they wrote, "challenges the conventional signaling literature, which assumes a single skill" (Heckman and Rubinstein 2001, 146).

Heckman has supported government intervention in early childhood programs to reduce achievement gaps. He has also suggested that the government engage the private sector, for resources: "Despite strained government budgets, it

would be possible to fund effective new programs if they replaced the numerous ineffective programs that currently receive government support. Few public programs of any sort would meet the standard set by the high rates of return earned by early childhood programs. Implementing high-quality early childhood programs would ease the budgetary burden of remediation. Engaging the private sector—including philanthropic, community, and religious organizations—would bolster the resource base supporting early childhood. Bringing in diverse partners would encourage experimentation with new approaches that build on the success of templates” (Heckman 2011, 83).

Heckman signed a petition in favor of increasing immigration to the United States (Hedengren et al. 2010).

When asked whether the 2008 financial crisis indicted Chicago economics and the coordinative role of prices, Heckman responded: “I tend to think of it more in terms of the market reacting too slowly.... For a long time, though, the market was sending the right signals. People made a lot of money—the traders, and so on. It turned out not to be socially optimal, but that is a different issue” (Heckman 2010b).

He went on to say, “I think you could fault the regulators as much as the market” (Heckman 2010b). He added: “People did react to incentives—clearly they did. It turned out that the incentives they were reacting to weren’t socially beneficial, but they definitely reacted to them” (ibid.). Elsewhere he said: “‘Markets are perfect’ is the vulgar view of Chicago economics.... The Chicago School never said we wanted blind deregulation” (Heckman quoted in Fitzgerald 2009).

Heckman summarized his approach: “[W]hat I take from Chicago is not some hard line about minimum wages or anything of the sort, but understanding that incentives really matter” (Heckman 2013a).

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## John R. Hicks

by Daniel B. Klein and Ryan Daza

John Richard Hicks (1904–1989) was born in Warwick, England. Edward Hicks, John's father, was a journalist for the *Warwick Advisor* and the *Birmingham Post* (Hamouda 1993, 2). Hicks initially was educated at home by his mother. At the age of 7, he started on Latin. In high school, between the age of 9 and 11, Hicks took lessons in Greek, algebra and geometry. He developed a passion for history, like his father, at this time, independently at a local public library. Hicks' family,

not financially well off, borrowed money to get him to a expensive grammar school after noticing that he was under-functioning at his local high school where he was far ahead of his peers (Hamouda 1993, 4). Financed by mathematical scholarships, he went to Clifton College between 1917 and 1922 and Balliol College, Oxford between 1922 and 1926 for mathematics.

Hicks reflected on his move towards economics:

[D]uring my school days, and in my first year at Oxford, I was a mathematical specialist; to the mathematical training I received at Clifton, in particular, I owe a great debt. But I was not contented with mathematics; I had interests in literature and in history which I needed to satisfy. My move (in 1923) to “Philosophy, Politics and Economics,” the “new school” just being started at Oxford, was, however, not a success. I finished with a second-class degree, and no adequate qualification in any of the subjects I had studied.

Economists, in those days, were very scarce, so I did pick up a temporary lecturership at the London School of Economics and managed to get continued. I started as a labour economist, doing descriptive work on industrial relations, but, gradually, I moved over to the analytical side. Then I found that my mathematics, by that time almost forgotten, could be revived, and were sufficient to cope with what anyone (then) used in economics. By 1930, when the economics department at the London School got a new lease of life under Lionel Robbins, I had found my feet. “How wonderful it must have been in those days, when such things could be picked up with so little trouble,” my students have said to me since. They were picked up in discussion, with Robbins and Friedrich von Hayek, with Roy Allen and Nicholas Kaldor, with Abba Lerner and with Richard Sayers—and with Ursula Webb, who, in 1935, became my wife.

By 1935, I had got so much that I needed to go away to put it together. Thus, when an opportunity arose for moving, to a university lecturership at Cambridge (and Fellowship of Gonville and Caius College), I took it. My years at Cambridge (1935–38) were mainly occupied in writing *Value and Capital* which was based on the work I had done in London, so I was not in a state to learn very much from association with Cambridge economists. From 1938 to 1946 I was Professor at the University of Manchester. It was there that I did my main work on welfare economics, with its application to social accounting. In 1946 I returned to Oxford, first as a research fellow of Nuffield College (1946–52), then as Drummond Professor of Political

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Economy (1952–65), and finally as a research fellow of All Souls College (1965–71). (Hicks 1992/1973)

In 1979, Hicks commented on how it was he became an economist:

I can give nothing better than the regular economic answer: in order to earn my living. At the moment when the decision had to be made, I had just taken my first degree at Oxford. I had had a very good general education, but a very unspecialised education, which did not clearly point in one direction rather than another. It had been paid for by “scholarships,” awarded on competitive examination (at the ages of 13 and 17); at that stage my main subject was mathematics. But I had turned away from mathematics; I took my degree in ‘philosophy, politics and economics’, a new course just established at Oxford, a course which was perhaps better devised for the training of politician than of academics. ... But I wanted to be academic; and though I had done very little economics, I was advised that economics was an expanding industry, so I would have a better chance of employment if I went that way. So I did. (Hicks 1984/1979, 281)

Hicks created or contributed to the development of many analytical tools still used today, including comparative statics, the IS-LM model, and the Kaldor-Hicks efficiency criterion. He won the Nobel Prize in Economic Science in 1972 with Kenneth J. Arrow for “their pioneering contributions to general economic equilibrium theory and welfare theory.”

Tracking Hicks’s ideological profile is especially challenging, and for several reasons. The overarching reason is that, throughout his life, he was reticent in expressing policy judgments. Second, he might be viewed as a double-mover, in that it seems that at a very early age he went from possibly social democratic toward Hayekian classical liberal views, and, then, after a few years, drifted away from Hayekian liberalism. A third reason is that, although he says he moved away from a Hayekian view, it is unclear how far he moved away, or what he moved on to; further, there are indications that he remained quite classical liberal. The fourth reason is that he was ever a critic of his own earlier work. He later remarked on the limitations and inadequacy of some of his most illustrious contributions, or of the entire line of thought to which he had contributed. David Laidler, for example, in a review of Hicks (1989), says of two of Hicks’s most famous papers (Hicks 1935, 1937): “Whatever Hicks may have intended, these two papers helped to set monetary economics moving in what he later came to regard as the wrong direction” (Laidler 1990, 481). Laidler adds: “For more than twenty years Hicks

strove to show that this development [trapping monetary economics “in a technically tractable Walrasian world in which there was no room for monetary exchange”], which his own earlier work had done so much to promote, was destructive” (488). Hicks differs from, for example, Paul Samuelson, Milton Friedman, Robert Solow, or Joseph Stiglitz, who earnestly believe that their illustrious contributions provide important argumentation or edification for their policy judgments. Many of the laureates express pride and gratification in dispelling ignorance and in expanding the empire of science, but Hicks rarely expresses such sentiments; indeed, his writings often implicitly exude doubt about such progress.

In his Nobel autobiographical essay, Hicks wrote:

I have been reluctant to pronounce on larger issues of practical economics since I am convinced that one should not pronounce unless one knows the facts; and to keep abreast of changing facts on a world, or even on a nation scale, is more than can be done by one whose main concern is with principles. A mere familiarity with statistics that have been prepared and digested by others is not sufficient. (Hicks 1992/1973; for similar remarks see Hicks 1984/1979, 287-288)

Hicks reports that he began teaching at the LSE in 1926, when he was just 22 years old, and continued to teach there until 1935. During “the second year,” presumably 1927–1928, Hicks went for a temporary appointment to South Africa, to teach at the University of Johannesburg. Hicks’s remarks about that year give an indication of his ideological tendency *prior to* that year, as well as after that year:

My own interest, at that time, was still in labour problems; and from that angle South Africa was a revelation. I came from a country where trade unions could still be thought of, by their well-wishers, of whom I had been one, as agents for the advancement of labour in general. But in South Africa they stood for no more than the interests of a minority, for white labour only. So much has been heard, in later years, of the colour problem in South Africa that it will hardly be credited that [Hugh] Dalton [who had been head of the economics department at Oxford while Hicks was a student there] had given me an introduction to his “fellow socialist,” the leader of the South African Labour Party, then in coalition with the Nationalists, the begetters of *apartheid*, with whom I could soon see that they belonged. Thus I got a new view of trade unions; I began to think of them as monopolists, so that it was by the application of monopoly theory that their effects were to be

understood. The reservation of skilled jobs to white labour, and the confinement of the best land in the country to white ownership, were the economic obstacles in the way of progress for the black majority. In a free market system these would wither away, so I became a free market man, even before I left South Africa. (Hicks 1984/1979, 283)

From these remarks, it seems that at age 23 or 24 Hicks was a trade union “well-wisher” who experienced a “revelation” and came to “a new view” after seeing trade unions as beneficiaries of privileges that contravene free-market principles. Coming out of the year in South Africa, at age 24 or 25, Hicks is “a free market man.” In a interview conducted by Arjo Klamer, Hicks recollects: “I remember how I was struck by the privileged position of the trade unions in South Africa, which were white trade unions. This may account for the rather anti-trade union line in my *Theory of Wages* [1932], which I hope is not so anti- as some people think” (quoted in Klamer 1989, 169).

After the one-year stint in South Africa, Hicks returned to the LSE, about the time of “the arrival of Lionel Robbins as head of department” in 1929. Hicks says that from 1929 he “fell rather easily into the ultraliberal line which became dominant in the economics section of LSE. It is von Hayek’s line” (quoted in Klamer 1989, 169); this period should probably be dated from 1929 to 1933 or 1934 or, at latest, 1935, when he moved from LSE to Cambridge. Hicks has elaborated on his ideological bearings during the early 1930s:

Thus, when the Robbins circle began to form, I fitted in. I readily accepted his rejection of inter-personal comparability of utilities (then considered as a rationale for progressive taxation), for the rejection was in line with the ordinalism I had got from Pareto. And I was readily seduced by the great “neo-classical synthesis” (as it effectively was, though that name has been mainly applied to later varieties), according to which a competitive system, free of monopoly elements, which would only grow if they were buttressed by state “interference,” would easily find an “equilibrium.” I was willing to apply this doctrine, even to the labour market; though there I had some reservations, which survive in some chapters of [*Theory of Wages*. My *Wages* book, however, is in its main lines thoroughly “neo-classical.” (Hicks 1984/1979, 283)

Hicks then marks a change of 1934 or 1935:

I was aware, before I left LSE in 1935, and before the appearance of Keynes’s *General Theory* at the beginning of 1936, that the direction in which my mind was moving was not dissimilar to his. (He told me so

himself, in some correspondence I had with him.) But I did not begin from Keynes; I began from Pareto, and Hayek. But I had gone by 1935 to draw consequences from my new approach; and I had realized that I had separated myself from the faith in the free market which had been dominant among my colleagues. After I had read them my *Simplification* paper (at the end of 1934) [that is, Hicks 1935] they must have been aware of what was happening; but, as I have said, the atmosphere at LSE was tolerant, and I have been able to keep them among my friends. (Hicks 1984/1979, 285)

At the end of the preceding quotation, Hicks places a footnote that reads:

I think that Hayek, and perhaps Vera Lutz, have been the only ones of us who in later years have been fully constant in the old faith. Even Robbins has departed from it, to a considerable extent. (Hicks 1984/1979, 285 n. 11)

Hicks's reorientation in the early 1930s seems primarily to be in his approach to economic theory (see Hicks 1973a), but clearly Hicks sees that as connected to a shift in ideology (cf. Hahn 1990, 544-545). Scitovsky (1990, 98) described Hicks as having "little sympathy...with the idealization of the free market."

From 1935, Hicks publishes a number of works that turn out to be seminal in economic theory (e.g., Hicks 1935, 1936, 1937, 1939a, 1939b, 1940). In later years, Hicks commented on many of these seminal works, and he often repudiates them, or even says that they did not represent what he had thought even at the time. For example, about his 1937 article "Mr. Keynes and the 'Classics': A Selective Interpretation," he wrote in 1973 that it was meant to be "a means of demonstrating the nature of the difference between Keynes and his predecessors—not a statement of what I myself believed" (Hicks 1973a, 10). With regard to the IS-LM construction originated in the same article (Hicks 1937, 153), Hicks later said: "Those two curves do not belong together. One is a flow equilibrium, the other a stock. They have no business being on the same diagram" (quoted in Klamer 1989, 175). In the same interview, Hicks says that his famous book *Value and Capital* "was a perfect competition book, running that particular assumption, a very convenient assumption, to the death. I don't believe in it. Even in the work that I did soon after that, I began to drop it—such as the work that I did on welfare economics" (quoted in Klamer 1989, 172).

In his 1973 recollections, Hicks (1973a, 11) diminishes Keynes's *General Theory*, and in 1974 he published a book titled *The Crisis in Keynesian Economics*. In *Crisis*, Hicks recounted:

Though Keynes wrote much about the events of the second quarter-century, and tried hard to influence them, I do not think he can be reckoned to have influenced them very much. There were many things against which he protested, and his protests against them have profoundly influenced late opinion; but the things against which he protested had usually already happened, so that it was only to a slight degree that he changed the course of events. Though it is true (to take the most important example) that the recovery from the Great Depression of 1930–2 was marked by the adoption, by several important countries, of what would now be reckoned as “Keynesian” policies, it is rarely the case that they were consciously adopted as such. Neither in Britain in 1931–2, in Germany in 1932–3, nor in America in 1933, was there a conscious adoption of expansionary policies in the Keynesian sense. Britain left the gold standard in 1931 because she had no alternative; interest rates were brought down to lighten the budget; the rather wild collection of measures introduced by the Roosevelt administration in April 1933, when it came into office, were obviously uninspired by any consistent doctrine. All these events, of course, precede the *General Theory* (1936). There was no time for the teaching of that book (generally regarded nowadays as incorporating the essential Keynesian doctrine) to make a deep impression on any but professional economists before the war began. It was during the war, and immediately afterwards, that people who had time to absorb that doctrine began to come into positions of authority. Thus it is the end of the war (which, economically considered, was hardly before 1950) that the age of Keynes, in practice, begins.

For at least half of the twenty-five years that I have attributed to it, it must be judged to have been a great success. Those who look for *long waves* in economic affairs will surely judge the 1950s, and most of the 1960s, to have been a prolonged boom. As with former long booms of such character, it was not uninterrupted by checks, or recessions; but the recessions were shallow and brief. There were many good years and they were not very bad. What a contrast with the years between the wars, when the good years were scarce, while the bad years were many and very bad!

It does, however, remain an open question how far this success was due to Keynesian policies. The boom was nearly universal but the Keynesian policies were by no means universal. It may, however, well be argued that they were sufficiently general to cause a general expansion; those who took no active part were yet borne up on the

expansion engineered by others. But even if that is granted, it does not dispose of the alternative view. The combination of more rapid technical progress (surely a fact) with the socialist tendencies which increased demand for collective goods (surely also a fact) could have produced such a boom without the added stimulus of Keynesian policies. It is still unclear how much is to be attributed to the one and how much to the other.

There can yet be no doubt that the boom was associated, in the minds of many, with Keynesian policies; so when, at some date in the late sixties (varying from country to country), the boom itself began to falter, the authority of the policies that were supposed to have led it inevitably began to be called in question. Instead of producing *real* economic progress, or growth, as they had for so long appeared to do, they were just producing inflation. Something, it seemed clear, had gone wrong.

What was it? That is a major question, one of the largest questions with which the world is at present confronted; I do not suppose that I am able to answer it. So I shall confine myself in these lectures to a subsidiary matter, of much interest in itself, on which I may be able to throw some light.

It is by no means surprising—it is indeed very natural—that when the time came for Keynesian policies to yield, or appear to yield, less satisfactory results, they, and their intellectual basis, should be called into question. That is what happens in all human affairs, in politics, in religion and in morals, as well as in economics. As in these other cases, the questioning takes various forms. It is unnecessary to go to the extreme of maintaining that the established doctrine is just wrong; it is easier to claim that it has been wrongly interpreted. But once it is granted that one wrong interpretation is possible, the way is open for the discovery of other wrong interpretations; and for competing views about right interpretations. So the issue which seemed closed is reopened. We have to start, in a way, all over again.

In the case of Keynes, one can see just this happening. The range of interpretation is widening out, and doctrines which look very different from what was orthodox Keynesian economics are claiming a place under the Keynesian umbrella. And indeed in the case of Keynes it is very easy. For Keynes was a man of extremely active mind, whose thinking never stayed still but was always pushing on. Some of those who worked with him could not stand the pace: “you never knew what he would be saying next.” Even his greatest book, *The General Theory*

*of Employment*, is by no means wholly self-consistent; and much of it appears inconsistent with other writings, which themselves contain ideas which do not seem to have been abandoned. Besides, he lived for ten years after the publication of the *General Theory*; and there is plenty of evidence that in those years, as one would expect, he was still pushing on. So the content of what really is Keynes's own doctrine, Keynes's own version of Keynesian economics, is by no means easy to determine. (Hicks 1974, 2-5)

In the years after, say, 1965, when he published *Capital and Growth*, Hicks remained reserved in policy judgment, but there are things that suggest a friendliness or inclination toward classical liberalism. In the interview with Klamer, for example, Hicks speaks three times of the UK economy being “semi-socialized” or “semi-centralized,” and it seems with some sense of dissatisfaction (Klamer 1989, 172, 180).

In his later writings Hicks gave much attention to time, change, and heterogeneity (particularly of capital), and explicitly linked his thinking to “Austrian” economics. Titles of his works include “A Neo-Austrian Growth Theory” (Hicks 1970), *Time and Capital: A Neo-Austrian Theory* (Hicks 1973b), and the edited collection *Carl Menger and the Austrian School of Economics* (Hicks and Weber 1973).

Hicks later remarked on being a sort of Austrian:

I was brought up a Baptist. At that time there were (in England at least) two sorts of Baptists: Particular Baptist and Open Baptists. It used to be said of the Particular Baptists that when they went to Heaven (there was no doubt that they would go to Heaven) they would be put into a little corner with a curtain round it, so they should not know that there was anyone else in Heaven! My parents, I am glad to say, were Open Baptists. When I began to grow up, I read a book in which it was said that the poet John Milton had been reported to be an “irregular and defective” Baptist; that, I thought, was just the kind of Baptist for me. Now, at the other end of my life, I find myself addressing a congregation of rather Particular Austrians, while I myself am no more than an “irregular and defective” Austrian. I have ventured to give the description “neo-Austrian” to the theory which has been developed in one of my books, and it has been stamped for heresy. (Hicks 1983/1979, 114)

Hicks wrote two essays for the Institute of Economic Affairs (IEA), a classical liberal think tank in London (Hicks 1966; 1975). These essays deserve

some attention, and perhaps they indicate that Hicks was somewhat simpatico with the IEA.

The first IEA essay is entitled “After the Boom: Thoughts on the 1966 Economic Crisis” (Hicks 1966). Hicks addresses the malaise of the UK economy, and suggests that we think in terms of a ceiling on potential economic growth, a ceiling determined by structural conditions not easily changed, and then to consider factors responsive to politically viable government policy actions, factors that determine whether the near-term growth rates are as high as the structural ceiling or fall somewhere below the ceiling. If achieved growth is below the ceiling, then “it will be wise to deal with it by a more expansionary policy along the lines Keynes made familiar” (Hicks 1966, 6). But if, instead, the problem is that the ceiling itself is low, then “there will be no way out in that direction; nothing can be done except by methods which try to raise the ceiling, involving changes in economic structure which may well be difficult or unpopular” (ibid.). Hicks proceeds to argue that the main problem is structural—causing the “ceiling” to be low. Turning to the structural problem, “so that debts can be repaid” (ibid., 13), Hicks says, “I can see no way out which does not involve a much stricter control of government expenditure” (p. 14), and “The public sector will just not be able to expand as it has been doing” (15). Hicks proceeds to argue that most of the expansion has been in local government expenditure, and adds: “It is dreadful to think how much of our national deficit is ultimately traceable to local expenditure on ‘civic amenities’, expenditures which would not have been made if the cost of it had been brought home to those responsible for it” (16). “Unhappily,” he continues, “the cost is no longer brought home to [local] councilors” (17)—thus, one of the structural sources of a low ceiling on growth. “Deficiency grants from the Exchequer have been notorious destroyers of financial responsibility among colonial governments, and now British local government has begun to suffer from the same curse.” “A solution will have to be found in a radical overhaul of local financial arrangements....” Hicks proceeds to say that making control of spending on local services even more centralized would be a “disaster” (ibid.). He elaborates:

Our constitution-less democracy is evolving with alarming speed towards a presidential system, in which a party leader, controlling his party by patronage, renews his power by periodic plebiscites on issues chosen by himself. There is not much which stands between us and that denouement, apart from the trade unions and the local authorities. With the local authorities gone, the way would be clear for a despotism punctuated by strikes. These are much more than economic issues, but in my view an economist has not finished his job until he has

considered the non-economic effects of what he is recommending.  
(Hicks 1966, 18)

Hicks proceeds to say that local government expenditure needs to be narrowed, and here he tentatively suggests turning secondary and further forms of education over to national government. But the main drift is “a narrowing of function” of local government (1966, 18-19); Hicks does not write explicitly of privatization or load-shedding, but such would seem to be implied, and it is perhaps hinted at in remarks (on page 20) about private versus public investment.

Hicks’s second, shorter piece for the IEA was titled “The Permissive Economy.” Once again, the message is that there are no quick solutions. After speaking of “the conversion of several large industries into state monopolies,” where “there was nothing that this employer could not (apparently) be made to pay” (Hicks 1975, 19), Hicks delivers his central message: “We shall not emerge from the slump that we are in until there has been an accepted fall in the real wages of most sorts of labour (which must no doubt take the form of a rise in prices which money wages, and of course salaries, make no pretence to catch up)” (20). Hicks ends the essay by saying: “To pretend that we can carry on in the old ways, as if nothing had happened, merely prolongs the agony” (21).

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## Leonid Hurwicz

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Leonid Hurwicz (1917–2008) was born in Moscow to Jewish parents who had fled Poland because of World War I (Grimes 2008). His family returned to Poland in 1919, and Hurwicz grew up there, going on to earn a law degree in Warsaw. His political views were somewhat abstract and do not seem to have changed over his adult life. They were, however, influenced by his experience with war: “Hurwicz translated the lessons of oppression into a now global belief system that is equal parts economics and philosophy, and that helps solve specific

problems in the real world. Among the many things he's learned: People can rise above their self-interest" (Bauer 2008).

After earning his law degree, Hurwicz was intrigued by an economics course and began work on his Ph.D. in economics at the London School of Economics, learning from, among others, Nicholas Kaldor and Friedrich Hayek. In 1939 he moved to Switzerland, and while there he attended the seminar of Ludwig von Mises in Geneva (Hurwicz 1984, 419). World War II prevented him from completing his degree (Grimes 2008). In 1940 he came to the United States after Hitler invaded Poland. Hurwicz continued his studies at Harvard University and the University of Chicago (Hughes 2007). In the 1940s he worked as Paul Samuelson's research assistant at MIT, taught electronics to the U.S. Army Signal Corps at the Illinois Institute of Technology, taught statistics in the economics department at Chicago, served as a researcher with the Cowles Commission, and was an economics professor at Iowa State and the University of Illinois.

"In early 1951," his Nobel Prize biographical sketch reports, "with McCarthyism rampant on college campuses, his politically liberal colleagues in the economics department were targeted, and Hurwicz resigned in protest" from Illinois (Bauer 2008). Hurwicz moved to the University of Minnesota that year, and there he taught economics for more than a half century.

In 1968 Hurwicz was a pledged delegate for Eugene McCarthy at the Democratic Party national convention, where he also served on the platform committee. Hurwicz was described as a "lifelong Democrat" in a *Telegraph* obituary, which noted his participation, at age 90, in a Democratic caucus during the 2008 election (Telegraph 2008).

Hurwicz focused on aligning incentives to improve outcomes, emphasizing the institutional strength of democracy, yet he also believed that moral leadership can be effective. The Nobel biography, summarizing this point from Hurwicz (1998, 12; 2008a, 287), says: "[I]n a truly democratic society, corrupt politicians can be halted by concerned and selfless individuals—he calls them 'intervenor'—who act to right the system. The same is true, Hurwicz postulates, in business, where a handful of righteous individuals can rebalance an equation thrown off kilter by dishonest peers" (Bauer 2008).

But we do not have to rely on the presence of intervenors. ... The voters as "guardians" of top guardians is an essential aspect of democracy. This type of structure is also closely related to (but not identical with) the notion of separation of powers. (Hurwicz 1998, 12-13)

Roger Myerson sees Hurwicz as developing themes advanced earlier by F. A. Hayek, although the ideological drift is not necessarily like Hayek's:

In an influential paper, Hayek (1945) argued that a key to this new economic theory should be the recognition that economic institutions of all kinds must serve an essential function of communicating widely dispersed information about the desires and the resources of different individuals in society. From this perspective, different economic institutions should be compared as mechanisms for communication.

Hayek also alleged that the mathematical economists of his day were particularly guilty of overlooking the importance of communication in market systems. But questions about fundamental social reforms require fundamental social theory, and in a search for new fundamental theories, the abstract generality of mathematics should be particularly helpful. So the failure that Hayek perceived should not have been attributed to mathematical modeling per se, but it was evidence of a need for fundamentally new mathematical models. Among the mathematical economists who accepted this challenge from Hayek, Leo Hurwicz has long been the leader.

Over many years and decades, Leo Hurwicz has worked to show how mathematical economic models can provide a general framework for analyzing different economic institutions, like those of capitalism and socialism, as mechanisms for coordinating the individuals of society. Hurwicz (1973) noted that, in late nineteenth-century economics, the institutionalists were economists who avoided analytical modeling. Today, all this has changed, since Leo Hurwicz set the standard for mathematical economists to study institutions as coordination mechanisms.

The pivotal moment occurred when Hurwicz (1972) introduced the concept of incentive compatibility. In doing so, he took a long step beyond Hayek in advancing our ability to analyze the fundamental problems of institutions. ... By learning to think more deeply about the nature of incentives in institutions, we have gained better insights into important social problems and policy debates. But as Hurwicz (1998) has observed, there are still basic questions in the theory of institutions that we need to understand better. (Myerson 2006, 2)

In a comment on Israel Kirzner published in the *Cato Journal*, Hurwicz shows how his thinking about the desirability of free markets is bound up with results in different models of market equilibrium, and with whether "optimality" or

“efficiency” is or is not achieved in such models. Since few, if any, markets operate under what he terms the “classical economic environment,” of perfect competition, constant returns, no externalities or public goods, etc., “it is difficult to see how one could justify ... the claim of efficiency of ‘free markets’” (Hurwicz 1984, 420). Hurwicz concludes his comment with the following words:

The problem of the appropriate role of markets and of government intervention is complex, and, in my view, panaceas are not to be found at either end of the spectrum. Dispassionate analysis—to which Professor Kirzner’s paper is a valuable contribution—shows the merits as well as the deficiencies of polar solutions; it points to the strengths of the market process as well as those imperfections which justify the search for supplementary institutional devices involving public intervention. It is likely that the answers will not please the ideologues of either persuasion. (Hurwicz 1984, 424)

As late as 2008, the conversation was still alive with Hurwicz:

Some of the most basic contemporary policy issues involve choice of institutions: Markets versus central planning, the scope and structure of social insurance (unemployment, old age, health), “property rights” as solutions to problems posed by externalities, world free trade, and the degree of economic integration of independent nations are obvious examples. The question is whether the role of institutions can be captured by appropriate analytical tools and incorporated into economic models—metaphorically, whether institutions can be introduced into models as variables, even as unknowns, rather than as fixed parts of the landscape (as is, for instance, perfect competition in so many mainstream models). If we can construct such models, then we can also consider incorporating implementation devices, with their limitations and potentials. (Hurwicz 2008b, 578)

Still, Hurwicz recognized that intervention has limits: “Depending on the participants in the game (i.e., composition of the society) and their preferences/values, a given mechanism may or may not be implementable within that society. The history of prohibition, namely, that it was never effectively enforced, may illustrate the negative case. Clearly, implementability depends on the nature of the goal and attitudes towards likely outcomes” (Hurwicz 2008b, 584). He continues: “The validity of Samuelson’s...conjecture (that is, that there may be no successful implementation for public goods under decentralization) remains, in my opinion, an open question. The example of voters removing a corrupt official from office

suggests that successful decentralization is possible. But the answer may depend on how we define decentralization” (ibid.; also at Hurwicz 2008a, 290).

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## Daniel Kahneman

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Daniel Kahneman (1934–) was born in Tel Aviv and raised in Paris and Palestine. Kahneman and his family moved to Palestine in 1946. He attended

Hebrew University in Jerusalem and received his degree in psychology with a minor in mathematics.

Kahneman served in the Israeli Defense Forces, where he worked in officer evaluation. In this endeavor, he found the assessments were largely unable to predict performance; he redesigned the evaluation and greatly improved the accuracy of the assessments. The experience encouraged him to take a statistical approach to psychology, and helped him realize some of the systematic errors human minds tend to fall into (Kahneman 2003).

In 1961 he earned a Ph.D. in psychology from the University of California at Berkeley. He was on the faculty of the Hebrew University from 1961 to 1978, moving on from there to the University of British Columbia, then to Berkeley, and finally to Princeton University. In 2002 Kahneman won the Nobel Prize in Economics, sharing the prize with experimental economist Vernon Smith “for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty.”

Kahneman worked for many years in close collaboration with Amos Tversky. Together, they famously identified many variants of human “susceptibility to erroneous intuitions” and verified these experimentally. Their work has been interpreted by many as demonstrating weaknesses or limitations in the rational-agent model of economic behavior (Kahneman 2003). Kahneman is noted for emphasizing a distinction between two modes of mental processing: quick, low-effort intuition and slow, high-effort consideration. Defaulting to the “fast thinking” leads to systematic errors (Kahneman 2011).

Jeremy Clift interviewed Kahneman for a 2009 profile in a publication of the International Monetary Fund. Clift framed Kahneman’s remarks on lessons of the 2008 recession as follows:

*Need for stronger protection for consumers and individual investors.* “There’s always been an issue of whether, and how much, protection people need against their own choices,” [Kahneman] argues. “But I think it’s now just become very, very difficult to say that people don’t require protection.”

*Failure of markets has much wider consequences.* “Interestingly enough, it turns out that when uninformed individuals lose their money, it ruins the global economy—so the irrational actions of individuals have much wider effects when combined with the rationality of corrupt agents within the financial system, and very lax regulation and supervision.”

*Limits of forecasting.* “The tremendous volatility in the stock markets and financial system tells us something about the amount of

uncertainty in the system and the limits of forecasting.” (Kahneman quotations as presented by Clift 2009, 7)

With Jon Renshon, Kahneman noted a psychological bias in favor of hawkish foreign policy (Kahneman and Renshon 2007, 34). Kahneman also has argued that the qualities people admire in leaders are not necessarily those that will best serve the interests of the nation (Kahneman 2013). He has signed a petition in favor of liberalizing prediction markets, as well as one in support of John Kerry for president in 2004 (Hedengren et al. 2010). Kahneman considers policy to “always involve tradeoffs and almost always involve money,” which, he says, “explains the dominant role of economics in policy” (Kahneman 2013).

Kahneman offers “an enthusiastic endorsement of the policy applications that have come under the label of behavioral economics. I am very optimistic about the future of that work, which is characterized by achieving medium-sized gains by nano-sized investments” (Kahneman 2013). Summarizing the policy points at the end of Kahneman’s *Thinking, Fast and Slow* (2011), Christopher Shea writes:

Kahneman ends...with a discussion of how the unraveling of the rational-agent model undercuts “the intellectual foundation for the libertarian approach to public policy.” At best, libertarianism “sometimes has a hard edge,” he writes: “elderly people who did not save enough for retirement get little more sympathy than someone who complains about the bill after consuming a large meal at a restaurant.” ... [H]e applauds rules that would simplify financial disclosure forms: “It is a good sign that some of these recommendations have encountered significant opposition from firms whose profits might suffer if their customers were better informed.” In general, he heartily endorses the “libertarian paternalism” proposed by Richard Thaler and Cass Sunstein, in the book “Nudge”: Creating “choice architecture” that makes it most likely that people will act in their best interests. (Shea 2011)

Kahneman (2013) claims Thaler and Sunstein as close friends and describes *Nudge* (Thaler and Sunstein 2008) as a “masterpiece.”

Kahneman has described opposition to policies such as Social Security and laws requiring helmets as being implied by an “extreme” belief in the rational-agent model. “[T]he assumption that individuals are rational in the pursuit of their interests has an ideological coloring and policy implications that many would view as unfortunate. ... It is not an accident that the department of economics at the

University of Chicago...is known both for its adherence to a strict version of the rational actor model and for very conservative politics” (Kahneman 2013).

In a 2012 interview, Kahneman was asked whether his work in behavioral finance could be helpful in forming market regulation. He responded:

I think there is no question about that. There are direct implications of behavioral economics and of the idea of bounded rationality for regulation. The idea of the rational agent model has two pernicious consequences. One is that you don’t need to protect consumers from themselves because they are rational, and therefore can be trusted to make the choices that are best for them. So you can oppose Social Security on the dual assumptions that people are rational and that they should bear the consequences of their actions. However, I believe that regulation is essential to protect people from predictable mistakes. You have to do that without abridging freedom, of course, but that can be done. And then you need to protect consumers from actors in the market that would deliberately exploit people’s ignorance and their intellectual sloth. (Kahneman 2012, 12)

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## Leonid Vitaliyevich Kantorovich

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Leonid V. Kantorovich (1912–1986) was born in Tsarist Russia to an affluent Jewish family; when he was 12 years old, his native city was renamed Leningrad. Kantorovich had a talent for mathematics and finished high school early at age 14 to enter Leningrad University. He graduated in 1930, then received a professorship in 1934 and finally his doctorate in mathematics in 1935 (Kantorovich 1992/1976b)—all by the age of 23.

Kantorovich began his career as a mathematics professor, but forayed into economics in the late 1930s, when he began working on complex problems of resource allocation (Kantorovich 1992/1976b). Aron Katsenelinboigen says of Kantorovich: “In 1939–41, he realized that the socialist economy as a whole could be perceived as an optimization problem. The logic of the Soviet planned economy naturally impelled Kantorovich towards this notion. ... In investigating [optimization relations], he was also able to penetrate deeper into the role of prices than had Soviet economists before him” (Katsenelinboigen 1979, 136). In 1975, Kantorovich won the Nobel Prize, shared with Tjalling Koopmans, for “contributions to the theory of optimum allocation of resources.”

A new branch of economics emerged in the Soviet Union in the 1950s “where a majority of the active research workers were of course relatively younger people, many of whom had their background in subjects other than economics” (Johansen 1976, 62). The new approach rivaled the political economy of socialism based on the works of Marx and Lenin. Stanley Brue and Craig MacPhee explain:

Based on the work of Leonid Kantorovich and other prominent scholars, a new *kafederi* of mathematical economics—more specifically, the System of Optimally Functioning Socialist Economy (SOFE)—came to the fore. This new economics, called *economic cybernetics* by many Russians, focused on linear programming and related optimization techniques of production. ... [The Political Economy of Socialism] was historical and heavily ideological with

research consisting of papers loaded with citations of Marx, Lenin, and current leaders of the Communist Party. On the other hand SOFE was highly mathematical, aimed at developing methods for implementing the long-run plans and improving the operation of state enterprises. Because the methodologies of these approaches differ, much tension has arisen between adherents of the two subdisciplines. (Brue and MacPhee 1995, 183-184)

Katsenelinboigen writes: “The fact that Kantorovich, independently from Western economists, discovered the economizing properties of prices in a planned system is not his great feat: Western scientists had already expounded these relations. His real success was in proposing both a concrete procedure for compiling an optimal plan and ways of overseeing its implementation in price mechanics” (Katsenelinboigen 1979, 138).

Kantorovich developed recommendations for improving Soviet planning, but his criticisms were not well received by the authorities, according to Katsenelinboigen:

In 1939 or 1940, [Kantorovich] wrote a letter to Gosplan containing his recommendations. At this point, the inevitable clash between Kantorovich and the Soviet bureaucracy finally occurred; only by some miracle did Kantorovich manage to survive it. (Katsenelinboigen 1979, 139)

After figuring out how to improve efficiency at a train car plant, Kantorovich was charged with “complicity” and apparently was spared because of his integral role in research on atomic reactors (Katsenelinboigen 1979, 134).

In 1965 Kantorovich wrote:

Planning of the national economy and of individual branches within the framework of the state is only possible when private ownership of the means of production is replaced by common socialist ownership. Such planning becomes possible when capitalist relations of production have been eliminated and replaced by socialist ones. ... The genius of [V. I.] Lenin’s ideas about planning formed the basis for all plans for the development of the national economy of the U.S.S.R. ... The [Communist] Party has frequently emphasized that only with detailed and correct scientific planning is it possible to achieve full and balanced use of all existing resources and to demonstrate the general superiority of the socialist method of production which will guarantee

the victory of socialism in the world-wide contest with capitalism.  
(Kantorovich 1965, xxi)

Kantorovich did, however, recognize “substantial shortcomings” in Soviet economic performance: “[C]onsiderable losses take place even now—idleness of labour and equipment, and losses in raw materials and fuel, owing to unsuitable programmes, rush work towards the end of the plan period and delays in supply, the freezing of materials in surplus stocks and in protracted construction—these are also evidence of the lack of sufficiently rational planning.” He acknowledged methodological issues: “All these losses are basically due to imperfect production planning and economic accounting, caused by inadequate methods.” He complained about prices: “Prices reflect quite inadequately the importance of equipment.” He recognized deficiencies in distribution: “Frequently there appears to exist considerable disparity between the orders and requirements of individual firms for materials, equipment, electric power, transport, means of capital investment against existing possibilities.” Kantorovich prescribed better socialism: “Our main ultimate aim is to furnish the best optimal plan, i.e. a plan which would ensure the maximum output of the necessary products from given resources. Such an approach corresponding to the very nature of a socialist society is in accordance with the basic economic principles of socialism” (Kantorovich 1965, xxii-xxx).

In the wake of winning the Nobel, Kantorovich voiced the view that “Scientific and technical progress is the basic means of further increases in the efficiency of social production in the age of developed socialism. ... Science is a direct production force, a decisive factor in the development of the socialist economy. ... Therefore the development of the national economy depends to a large extent on the economics and management of scientific and technical progress” (Kantorovich 1976a, 521).

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## Lawrence R. Klein

by Daniel B. Klein and Ryan Daza

Lawrence Klein (1920–) was born in Omaha, Nebraska and experienced childhood during the Great Depression. He reflected on the events of his early life:

Although I was not aware of it at the time, the experience of growing up during the Great Depression was to have a profound impact on my intellectual and professional career. Collegiate life subsequently gave me a basis for understanding this experience and to develop some analytical skills for dealing with the important economic aspects of this era, as well as the exciting times that were to come—World War II, postwar reconstruction, and expansion. (Klein 1992a/1981)

He describes his direction in college:

When I entered university my interests began to take shape in the world of ideas. I specialized in both economics and mathematics. I could not see their eventual use together to deal with problems that the world faced. Also, I was not equal to the quick-witted star mathematicians at the university, but I kept being attracted by mathematical problems and their potential use in natural, physical, and social sciences—especially in economics. (Klein 2006, 31)

Klein started at Los Angeles City College for his undergraduate studies, earning his degree in economics at the University of California at Berkeley in 1942 and his Ph.D. at MIT in 1944. He moved to join the Cowles Commission, then at the University of Chicago, and later to the University of Michigan where, with Arthur Goldberg, he developed the Klein-Goldberger model. In 1954 he moved to Oxford to do studies on the British economy. In 1958 he moved to and has since been at the University of Pennsylvania, where he founded Wharton Econometric Forecasting Associates.

Roberto S. Mariano, in a highly informative entry on Klein in *The New Palgrave Dictionary of Economics*, says that Klein has been “a pioneer...in developing a worldwide industry in econometric forecasting and policy analysis” (Mariano 2008). At the University of Pennsylvania Klein also helped to establish Project LINK, which, Mariano says, “sought to integrate the macroeconomic models of different countries, which eventually included Third World and socialist nations, into a total simultaneous system....” In an autobiographical essay, Klein notes that the LINK system “now consist[s] of more the 15,000 dynamic nonlinear equations” (Klein 2009, 31). Mariano (2008) remarks: “When one thinks of macroeconomic models, his name is the first that comes to mind.” Klein won the Nobel Prize in Economics in 1980 “for the creation of econometric models and the application to the analysis of economic fluctuations and economic policies.”

Mariano (2008) reports that, in 1954, “Klein testified in a Detroit hearing that he had been a member of the Communist Party for about six months in 1946.” Klein would have been 26 years old. We have read the transcription of the original hearing (U.S. House 1954, 4991-5002). Klein was summoned and made to answer the questions of ominous government bullies. One cannot put much confidence in what someone says to government officials who wield great power for which they are little accountable. If one were to take Klein’s testimony at face value, it would mean that he was a member of the Communist Party for perhaps two years (1945–1947), was quite sympathetic to socialism up to age 26 or 27, having for several years been involved, uncomfortably, with Marxist groups, and that he then, around 1947, gave up socialism for a more mainstream sort of interventionist economics. Mariano remarks that in 1954 the “University of Michigan was to promote Klein to full professorship but then reneged” after the Communist Party testimony came out, and Klein then went to Oxford.

Mariano (2008) notes that “one of Klein’s best-known works” is *The Keynesian Revolution*, which grew out of his dissertation and was first published in 1947. Richard M. Ebeling says that Klein was “one of the great popularizers of the ‘new economics’ of John Maynard Keynes” and that *The Keynesian Revolution* “represented the growing consensus of the time among economists and government-policy advocates on how monetary and fiscal tools should be used to manipulate the economy” (Ebeling 2006, 2). The book is remarkable for its confident, forward tone in expounding the new thinking and agenda. In 1959 the American Economic Association awarded Klein the John Bates Clark Medal.

Passages from *The Keynesian Revolution* help to capture Klein’s ideological outlook at age 27, when the book originally appeared.

Klein assured his readers that Keynesianism was not socialism:

There is a great misunderstanding among the American public that the practical reform measures of the Keynesian economists are leading to socialism. It must be emphasized that the Keynesian reforms do not infringe upon the rights of private individuals to own producer goods. The most important characteristic of a socialist economy is that there do not exist private property rights over producer goods. The Keynesian approach visualizes the state as a balancing force which serves only to supplement the behavior of individual capitalists, while the socialist approach visualizes the state as the sole entrepreneur which replaces, entirely, the individual capitalists. (Klein 1947, 167)

Klein outlines “a practical program of economic policy which will be necessary in order to reform capitalism to a system of full employment” (1947, 168). Passages from his outline follow:

The level of investment can be stimulated most directly by outright government investment. There are many socially useful projects which need to be undertaken ... For example, the slums in every metropolitan district of the United States should be cleared away and replaced with modern low-cost dwelling units. Cities should be redesigned to diminish the nuisance of smoke, provide better traffic arteries, allocate space more rationally between dwelling areas and recreation areas, etc. These investments projects have not been and are not being undertaken, yet they are certainly desirable. ... Useful investment schemes like these must be undertaken by the sole agency which can afford to take the risk of slow or zero return, the government. It is well known that the magnitude of all such building programs that are socially desirable could insure [re: ensure] full employment in the United States for several years, at least. Here is an obvious method for stimulating the level of investment; the government directly invests in socially desirable projects... (Klein 1947, 170)

An alternative method...is to lower business taxes. Economists have recently been arguing strongly in favor of reduced business taxes in order to stimulate investment. However, many of these arguments are not correct. ... If the tax rate is changed from 40 per cent to 10 per cent, there is no reason why an entrepreneur who is maximizing his individual profits will directly alter his investment decisions. It is a general proposition that the profit-maximizing decisions of business

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firms are independent of the income tax structure (progressive or constant proportionality) if the marginal tax rate is always less than unity, as is the case with any reasonable tax system. (ibid., 171)

Interest rate policy can, in general, be expected to be quite ineffective. (ibid., 172)

[F]orces which tend to lower our propensity to save have evolved naturally in our system, but they can also be incorporated into a consciously directed government policy. We can subsidize truthful advertising and education. We can have government investment projects to mechanize agriculture and get the surplus population off the farms into the city in more productive jobs where these migrants will have a lower propensity to save. We can extend the operations of organizations like the [Federal Housing Authority] to provide credit for durable consumer goods at low interest rates. All these policies will depress the savings schedule and help to reach a high-consumption economy. (ibid., 176)

In our modern industrial society built on individualistic principles there are obvious reasons why people save. They save for the rainy days when they will be unemployed, sick, disabled, or too old to work. ... The obvious way to diminish savings on account of these primary causes of need is to have the state provide for these needs at the cheapest possible cost. ... We need a non-profit institution like the government, which can provide a comprehensive, minimum program of social security in order to reduce the propensity to save. This program must cover the entire population, and it must cover all those contingencies which cause people to save on a large scale for the future. (ibid., 176-177)

There is at least, one further method of discouraging saving. ... If we redistribute income from the rich, who have a relatively high marginal propensity to save, to the poor, we will decrease the community's marginal propensity to save. Such policies of income redistribution can be carried out by taxing the rich and paying a dole or other types of contributions to the poor. (ibid., 177)

A backlog of planned public works should always be ready so that unemployed factors can be immediately put to work on useful jobs whenever the private sector of the economy is unable to carry the

ball. Government spending should be very flexible and subject to immediate release or curtailment in just that precise amount which will maintain full employment, no more and no less. ... There is no reason why intelligent economic planning cannot be of just the correct amount, that amount which gives permanent full employment and stable prices. (ibid., 179-180)

If the state is to adopt a conscious policy of full employment, it must use some device that will give control over enough privately owned resources to enable it to put the unemployed to productive efforts. An obvious way for the state to acquire the necessary resources is for it to borrow funds with which to purchase the resources. (ibid., 181)

As long as the interest charge is a small fraction of the income, the burden is not cumbersome. At present interest rates and debt size, the interest payments are small in comparison to the national income. If income continues to grow secularly as it has in the past, there is little danger that the interest charge on any debt that we are likely to accumulate will become cumbersome. (ibid., 182)

In the final words of the book, Klein speaks of the agenda beyond the outline he has provided:

We too must study [the problem of resource allocation], once we have put all our men and machines to some useful effort. The productive factors must be distributed among industries and occupations in such a way that we get as high a value of full-employment output as is physically possible within our accepted patterns of work and leisure. ... The problem of resource allocation was not treated by Keynes, because there were more urgent matters at hand. But resource allocation will again become urgent when the problems that have bothered Keynes are solved. (Klein 1947, 187)

Klein is a prime figure of the heyday of planning economics. Mariano (2008) remarks on Klein's time in the mid-1940s at the Cowles Commission: "This turned out to be a defining period for Klein's professional career. His interactions with an unusually talented group that included J. Marschak, T.W. Anderson, H. Rubin, M. Girschick, T. Haavelmo, T. Koopmans, D. Patinkin, L. Hurwicz, K. Arrow, H. Simon, R. Leipnik, H. Chernoff, and visitors such as J. Tinbergen, R. Frisch and M. Kalecki proved to be a catalyst for his development into an applied econometrician par excellence."

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In a 1948 article in the *American Economic Review* entitled “Planned Economy in Norway,” Klein wrote:

The Norwegian reconstruction program has been based on planning techniques which can be classified among the most positive programs in Western Europe. National economic planning in Norway should be of particular interest to professional economists because of its modern character which is a result of the influence of Norwegian economists in the drafting of the program. (Klein 1948, 795)

In 1980, in his Nobel lecture “Some Economic Scenarios for the 1980s,” Klein used the Project LINK econometric model to project economic trends into the future. He projected that between 1980 and 1990 the OECD countries would experience annual GDP growth of 3.0 percent while the “Centrally Planned Countries” would experience annual growth of 4.3 percent (Klein 1992b/1981, 431, Table 6).

In a 1992 autobiographical essay, Klein writes:

Philosophically, I do not believe that the market system, in even its purest form, provides adequate self-regulatory responses. The economy definitely needs guidance—even leadership—and it is up to professional economists to provide public policy makers with the right information to deliver such leadership. As for the methods of doing this, I see no alternative to the quantitative approach of econometrics, but I do realize that all policy issues are not quantitative and measurable. At times, subjective decisions must also be made. (Klein 1992c, 186)

It seems that Klein’s views on money in macroeconomics have changed somewhat. He writes:

Over the years, particularly in studying the macroeconomy, I have come to appreciate, more and more, the role of money and of the whole monetary sector. I think that *monetarism* is fundamentally flawed, and dangerous when used as a doctrinaire policy approach, but I do believe now that *money matters*; it is not everything, but it does matter. (Klein 1992c, 188, emphases in original)

On rational expectations, Klein has stated:

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I believe that the approach of rational expectations (or, better expressed, own-model-generated expectations) is asking too much of the data. It asks the data both to generate the expectations and provide the model estimates with simulation. That is overworking the data. (Klein 1987, 442)

In 2004, Klein gave an interview to the *Wall Street Journal*. He was asked about his opinion of the Bush Administration's dividend tax cut. Klein responded: "The tax cut increased the deficit significantly without being a big support for capital formation. ... The main reason why I object to a dividend tax cut is this: there are other ways to stimulate investment through tax concessions that insist that the company invests. One is the investment tax credit and another is accelerated depreciation. ... I would be much more sympathetic to [such a] tax cut or a tax concession rather than a dividend cut" (Klein 2004). He continued on the effectiveness of the Bush tax cuts:

We don't see it yet. But we do see an increase in the deficit. The increase in the deficit itself for this fiscal year is on track to be between \$400 billion and \$500 billion. A lot of that has to do just with the dividend tax cut. I think the tax policy in general is not well conceived. It should have been for people who would have been highly likely to spend a good share of it, and it was not engineered that way. The engineering of the tax cut is more a matter of tax reform than tax reduction. And when we're fighting a war, running a deficit and trying to get the economy moving, it's not a time to experiment with tax reform. What we need is a tax concession for the relatively lower and middle income groups who will be likely to spend it. (Klein 2004)

Klein, however, was not opposed to overseas outsourcing by American companies:

Well, I've been involved in a major study on offshoring. The typical example is the Indian software industry in Bangalore and Hyderabad. People are opposed to it because it seems to be taking white-collar jobs from America and moving them to low-wage countries. India is not the only country, but it's the biggest single country. ... I would argue that it's not a bad thing to happen. There may be some loss of jobs in the short term, but in the longer run, we get those jobs back because we get more exports in other areas. We've been through this before...with television sets. That didn't really undermine our economy because we turned to more sophisticated activities.

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The basis of the argument is a classical, old-fashioned argument of the gains of trade. Everybody can gain, but it takes time. In our studies of offshoring, I've found that for a year or two, we might lose some jobs but we could try to compensate for that. In the longer run, we would gain by lower costs. (Klein 2004)

When asked: "Would you consider signing another statement with Nobel laureates against current economic policy?" Klein responded:

It would have to be very specific. I would sign a statement saying that the administration's policy is faulty and not effective. I'm against the whole war situation, and that's what is giving rise to the [economic] problems. (Klein 2004)

Regarding foreign policy issues, it should be noted that Klein was "a founding officer and active moving force of the Economists Allied for Arms Reduction (ECAAR), now Economists for Peace and Security (EPS)" (Mariano 2008).

In a 2012 book chapter regarding the recent recession, Klein and his collaborators recommend that policymakers "improve fairness and transparency of the financial markets, thereby perfecting the market equilibrium, protecting investors, and stabilizing the market. The ultimate goal is to prevent crisis so that people's happiness and health can be protected and improved" (Yan et al. 2012, 24-25).

Klein (2009, 32) notes that in 1976 he served "as Jimmy Carter's coordinator of his economic task force." Klein has signed several petitions: against sweatshops, against the Bush tax cuts, in support of raising the minimum wage, and endorsing John Kerry for president in 2004 (Hedengren et al. 2010).

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## Tjalling C. Koopmans

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Tjalling Koopmans (1910–1985) was a Dutch economist whose Nobel-winning work was on optimal planning. It appears that he was not very vocal about his ideological views, even when some of his peers were.

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Koopmans grew up in the village of 's-Graveland and began his education in biblical studies at a school where his father was principal. His early life outside of school leaned heavily on common religious rituals and instruction. At seventeen, Koopmans left for the University of Utrecht. While at the university, he boarded with a family less strict and much more socially lively. He would eventually renounce his ties to the Protestant faith (Scarf 1995, 264-265).

At the university Koopmans studied pure mathematics and theoretical physics, which eventually led him into economics. Koopmans explained the academic shift as “a compromise between my desire for a subject matter closer to real life and the obvious argument in favor of a field in which mathematical training could be put to use” (Koopmans 1992/1976).

In his early twenties, Koopmans looked to Marxism to make sense of the Great Depression. In an autobiographical sketch, he wrote: “It dawned on me that the economic world order was unreliable, unstable, and, most of all, iniquitous. I sought intellectual contacts and friendship with a group of socialist students and also with a small handful of communist-oriented students and unemployed workers. Thus, Karl Marx’s *Das Kapital*, Vol. I, came to be the first book in economics that I studied. While never accepting the labor theory of value, I was stirred by the famous chapter on the state of the English workers during the Industrial Revolution” (Koopmans 1992/1976).

Koopmans eventually affiliated himself with Jan Tinbergen, a trained mathematical physicist. Koopmans moved from Utrecht to Amsterdam and connected with a group of Tinbergen’s young disciples, among them Truus Wanningen, with whom Koopmans had shared interests in “economics, music, nature, love, and independence from the views and lifestyles of our parents.” Koopmans and Wanningen were married in 1936 (*ibid.*). Koopmans earned his doctorate and became an economics professor at the Netherlands School of Economics in Rotterdam between 1936 to 1938, after Tinbergen was called to the League of Nations at Geneva. When Tinbergen returned in 1938, Koopmans took his place at the League. He worked for two years in Geneva, then came to the United States in 1940 (Koopmans 1992/1976).

In a speech in 1949, Koopmans entered the calculation debate by dismissing it:

Much of the literature touching on this topic [the problem of efficient allocation in production] is concerned with the evaluation of alternative institutional or administrative forms of organizing production. This evaluation forms part of the grand debate on the merits of private or corporate enterprise versus a centrally directed economy—a debate touching upon the broad theme of the present

meetings—and important insights about our topic can be gained from this debate. The famous article by Enrico Barone on “The Ministry of Production in the Collectivist State” emphasized the idea that an economy under centralized direction, to be efficient, should in most of its operations satisfy the same formal conditions as are satisfied by the economic theorist’s model of competitive society. This idea has been substantially accepted by all participants in the ensuing debate [Hayek-Robbins, Lange-Lerner]. The controversy was about methods satisfying these conditions. ... To remind us that the real world always offers a greater variety of problems than our attempts at theorizing have envisaged, a new contribution to the discussion has recently come from outside economics. M. K. Wood, a scientist and administrator, and G. B. Dantzig, a mathematician, both of the U. S. Department of the Air Force, were faced with the allocation problems of a widely ramified part of the military establishment. ... In this situation...they revert to the method discarded by all participants in the debate who came after Barone: the actual collection of relevant technical information in one center and the calculation of an allocation program to serve as the basis of a large number of detailed directives. ... This interesting turn in the discussion shows, it seems to me, that the earlier discussion had been concerned too much with absolute institutional categories encompassing the entire economy. Even in the capitalistic enterprise economy there are many sectors where the guideposts of a competitive market are lacking and explicit analysis of the allocation problem is needed. (Koopmans 1951, 455-457)

Koopmans became part of the Cowles Commission at the University of Chicago, where he worked with Kenneth Arrow, Jacob Marschak, and others. Arrow has remarked that the Cowles group was “persecuted, but...taken seriously” by Milton Friedman and others who disagreed with their approach (Arrow 1995). Arrow described Koopmans as a “reserved scholar” who was “very unhappy” with the other members’ aggressive style in exchanging ideas (*ibid.*). Perhaps this reserve kept Koopmans from elaborating his own views.

From his early interest in Marxism, Koopmans said only that he “retained a lifelong interest in the prior formulation of that fundamental part of economic theory that does not require specifying the institutional form of society to be used as a framework for the description and comparison of different economic systems” (Koopmans 1992/1976). Fellow economist James Tobin said of Koopmans:

From Marxism he learned the relativism and fragility of institutional and political forms, a lesson that has led him over the years to concentrate on the enduring aspects of economic life which transcend those forms. Although much of Koopmans's work appears to provide logical support for the optimality of competitive equilibrium, he is too wise a man and too pure a scientist to identify such theory with "free enterprise" ideology. (Tobin 1977, 59)

Tobin described Koopmans's discreet disposition: "Unlike many giants of contemporary economics, Koopmans is not widely known outside of his profession. Few newspaper readers recognized his name when his 1975 Nobel Prize was announced. He has not written best-selling tracts or textbooks, or articles in popular media; debated policy and ideology on TV; testified before Congress; advised political candidates, public officials, or businessmen; addressed large audiences on the lecture circuit; or held government office. He has always been a scientists' scientist, a theorists' theorist, and economists' economist. ... Always concerned for precision and proof, he prefers not to venture into areas where he is personally unsure of logical or empirical foundations" (Tobin 1977, 58).

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# Paul Krugman

by Jason Briggeman<sup>30</sup>

Paul Krugman (1953–) was raised on Long Island “in a safe middle-class suburb” (Krugman 1995, 30). His career choice grew in part from childhood dreams:

Krugman says he found himself in the science fiction of Isaac Asimov, especially the “Foundation” series—“It was nerds saving civilization, quants who had a theory of society, people writing equations on a blackboard, saying, ‘See, unless you follow this formula, the empire will fail and be followed by a thousand years of barbarism.’” ...

Social science, he says, offered the promise of what he dreamed of in science fiction—“the beauty of pushing a button to solve problems. Sometimes there really are simple solutions: you really can have a grand idea.” (Thomas 2009)

Krugman majored in economics as an undergraduate at Yale, where he became a research assistant to William Nordhaus. He finished in 1974, then in only three years earned a doctorate from MIT; by the fall of 1977, Krugman was back at Yale as an assistant professor. Krugman moved to MIT in 1980, where he would remain for the next two decades, save for two years at Stanford. While at MIT he met his future wife Robin Wells, an economist who has coauthored several textbooks with Krugman (e.g., Krugman and Wells 2006) and often helps to shape his writing (MacFarquhar 2010).<sup>31</sup> Since 2000, Krugman has been professor of economics at Princeton.

Between 1978 and 1980, Krugman wrote several papers illuminating phenomena in international trade that were not well explained by simple notions of comparative advantage. These successes, Krugman says, effectively assured his place among “the people who get invited to speak at academic conferences, who form a sort of de facto *nomenklatura*” and “constitute a true, and wonderfully unpretentious, elite” (Krugman 1995, 33-34; cf. Galbraith 2001). But in 1982, at the invitation of Martin Feldstein, Krugman took leave from the academic circuit to join President Reagan’s Council of Economic Advisers:

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30. Central Texas College, Killeen, TX 76540.

31. “Early on, she edited a lot—she had, they felt, a better sense than he did of how to communicate economics to the layperson. But he’s much better at that now, and these days she focusses on making him less dry, less abstract, angrier” (MacFarquhar 2010).

It was, in a way, strange for me to be part of the Reagan Administration. I was then and still am an unabashed defender of the welfare state, which I regard as the most decent social arrangement yet devised. . . .

Washington was first thrilling, then disillusioning. It is the capital of the world, and for a young person it is wonderful to think that you can really have an effect on decisions of global importance. I can still recite from memory the long list of prohibitions on the front page of each classified document (“Secret/No foreign nationals/No contractors/Proprietary information/Origin controlled”). Some people get addicted to that thrill, and will do anything to stay near the center.

After a little while, however, I began to notice how policy decisions are really made. The fact is that most senior officials have no idea what they are talking about: discussion at high-level meetings is startlingly primitive. (For example, the distinction between nominal and real interest rates tends to be regarded as a complex and useless bit of academic nitpicking.) Furthermore, many powerful people prefer to take advice from those who make them feel comfortable rather than from those who will force them to think hard. That is, those who really manage to influence policy are usually the best courtiers, not the best analysts. I like to think that I am a good analyst, but I am certainly a very bad courtier. And so I was not tempted to stay on in Washington. (Krugman 1995, 34-35)

In the decade following Krugman’s year in Washington, he expanded on his previous research in trade theory (Helpman and Krugman 1987) and wrote papers motivated by current policy debates (e.g., Krugman 1991). He also developed a research agenda in economic geography that complemented his early work. The 2008 Nobel Prize was awarded to Krugman “for his analysis of trade patterns and location of economic activity.”

Over the same period, Krugman began writing books and articles on economics intended for the general public:

[In Washington] I did, however, discover a new talent: that of writing serious economics in seemingly plain English. I got to practice that talent in writing classified memos, and proved good enough at it that I ended up writing most of the 1983 *Economic Report of the President*. Ever since, I have used non-technical writing about economics as the basis for a sort of parallel career, one that keeps me on the fringes of the policy world though rarely at its center. (Krugman 1995, 35)

Krugman's first such efforts were noted (by, e.g., Kuttner 1996) for counseling a Stiglerian acceptance of the status quo on a variety of issues. Krugman titled his first popular book *The Age of Diminished Expectations* (1990); in the next, *Peddling Prosperity*, Krugman mocked "policy entrepreneurs" who offer "unambiguous diagnoses" and "easy answers" in books with brash titles (Krugman 1994, 11).

The older Krugman, remarkably, has become a leading advocate of a "progressive agenda" that is "clear and achievable" (Krugman 2007a, 272). He has been since 2000 a regular op-ed columnist at the *New York Times*, where he also maintains a blog of the same title as his 2007 book *The Conscience of a Liberal*. In 2012, he published a bestseller declaring that Keynesian insights on the business cycle make it possible to *End This Depression Now!* And through this period, Krugman has continued to be held in very high esteem by many economics professors (Klein et al. 2013, 123).<sup>32</sup>

Krugman's popular output is vast, rife with pronouncements on policy issues, and yet also often subtle in its analysis and politically astute (Sumner 2010). When one writes with an eye to political impact, one may find it important to play up or play down different matters at different times, even as one's own positions on the underlying issues may remain unchanged. Not surprisingly, there have been shifts in Krugman's discourse that seem driven by the fortunes of the two major U.S. political parties. For instance, in his *New York Times* columns Krugman largely refrained from criticizing Democratic Party politicians during the Republican administration of George W. Bush (Waight 2002; 2007; 2008), but since then he has often been critical of President Obama (Thomas 2009).

There is also, obviously, much reason to think Krugman has changed his method in seeking to have an impact on the course of events. The early Krugman saw that he could make an impact by building standing as a dispassionate academic economist;<sup>33</sup> the later Krugman believes he can contribute by aiding the better of

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32. The older Krugman all but has to be interpreted as bravely attempting to surmount this thicket of difficulties anticipated by the younger Krugman: "A professor can try to play [policy] entrepreneur—after all, the rewards in both money and a sense of importance can be huge. Ultimately, however, she is at a disadvantage, because she is too constrained by her obscure professorly ethics. Some professors manage to transcend these limitations, but in so doing they cease to be professors, at least in the minds of their colleagues. And in general it seems that it is easiest to become a policy entrepreneur if your mind has not been clouded by too much knowledge of economic facts or existing economic theories—only then can you be entirely sincere in telling people what they want to hear. As a result, most of our influential economic policy entrepreneurs, right and left, have their professional roots in journalism or law rather than economics" (Krugman 1994, 12).

33. "Surely as a practical matter the devastating criticism of [Bob] Dole's economic plan from conventional economists has been far more effective than the complaints of the interventionist left. To make that kind of criticism effective, however, you need a certain kind of moral authority—a reputation for intellectual honesty that can only be achieved if you are willing to critique bad ideas on the left as well as the right" (Krugman 1996b; see also Krugman 1998a, 9, 41).

America's two political parties to electoral victory. Krugman holds that a blunt form of partisanship is necessary, if only temporarily (Krugman 2007a, 272-273), because the contemporary Republican Party is a menace that must be vanquished; as he says, "the madness of the GOP is the central issue of our time" (Krugman 2013c).<sup>34</sup> Americans can't, or don't, have a stable political system upon which a leading intellectual can have much positive effect by criticizing, from a point in a multidimensional ideological space, that which is errant in both parties.<sup>35</sup> Rather, responsible criticism of the better party should almost always be made from that party's flank, so that no one can interpret the criticism as an expression of sympathy for the worse party.<sup>36</sup> The base of the better party will then be encouraged, or inspired, and comforted in its beliefs.<sup>37</sup> A Democratic Presidency and majority in Congress are the most important factors in improvement (Krugman 2007a, 272), and thus the role of cheerleader for the better party is an appropriate role for a leading intellectual to take up and maintain.

Krugman and others date his embrace of a crusading partisanship to the early years of the Bush administration (Confessore 2002; Tomasky 2007), and sometimes Krugman has suggested that shift occurred because of his observation of efforts by the Bush administration to mislead (Krugman 2008; 2009; MacFarquhar 2010). Krugman had, however, claimed on several occasions prior to 2001 that dishonesty is endemic to conservative or Republican thinking. Looking back on his time on the Council of Economic Advisers in the early 1980s, Krugman (1995) wrote: "The Reagan Administration was, of course, full of people who hated the welfare state and had very little interest in the truth." In 1996, speaking generally about policy debates of that time, Krugman wrote: "There is...another way to counter the conservative program: by pointing out that it is based on falsehoods, not only about the effect of tax cuts but about the nature of public spending and the realities of income distribution" (Krugman 1996b).

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34. Cf. Krugman (2007a, 272): "The central fact of modern American political life is the control of the Republican Party by movement conservatives."

35. "[M]ost conservatives are not libertarians... there are some real libertarians out there, particularly in the realm of economics bloggers, but they have no real power base. ... [T]here is an interesting debate to be had about the proper extent of the public sphere. But that isn't the debate driving our politics; our left-right split isn't nearly that idealistic, or innocent" (Krugman 2013f).

36. Daniel Klein and Harika Anna Barlett (2008) show that, in his *New York Times* columns, Krugman has only rarely criticized existing government interventions.

37. "Krugman was not, and is not, the only person in America who believes that the Bush administration is in cahoots with interests out to bilk Americans and pervert the political process. But as a *Times* columnist, closely read by the political elite and syndicated to papers across the country, he has been able to validate the anger of a whole class of angry, frustrated Democrats who feel that he's the only one prepared to describe the world as it really is" (Confessore 2002).

## ECON JOURNAL WATCH

While Krugman has changed much in how he writes and what subjects he tackles, there are also a few definite shifts in his policy views, though probably not as many as a cursory examination would suggest.

In a 1987 article for the *Journal of Economic Perspectives*, Krugman expressed the view that “the national interest” should take precedence over any hard-and-fast principle of free international trade. He interpreted new trade theory as having revealed that free trade is not “the policy that economic theory tells us is always right” (Krugman 1987, 132), but said that free trade could still “serve as a focal point on which countries can agree to avoid trade wars” (*ibid.*, 143). Krugman wrote:

Strategic trade policy aimed at securing excess returns for domestic firms and support for industries that are believed to yield national benefits are both beggar-thy-neighbor policies that raise income at the expense of other countries. A country that attempts to use such policies will probably provoke retaliation. In many (though not all) cases, a trade war between two interventionist governments will leave both countries worse off than if a hands-off approach were adopted by both. (Krugman 1987, 141-142)

Krugman said, however: “If the potential gains from interventionist trade policies were large, it would be hard to argue against making some effort to realize these gains” (1987, 143).

It seems to me that if Krugman’s views on trade have changed, the change is small. In 2010, the *New York Times* published an editorial criticizing the Chinese government’s “economic strategy based on cheap exports.” In a blog post later that day, Krugman (2010) praised the editorial and urged the U.S. to threaten sanctions against China. I interpret Krugman as hoping that such a threat would lead to China dropping its interventionist trade policies. Krugman concluded by telling his readers to “bear in mind” that if the threat were instead to set off a trade conflict, large losses could befall China but that the U.S. “may well end up gaining,” adding “right now we’re in a world in which mercantilism works” (Krugman 2010).

Krugman (2013b) recently endorsed “stricter safety and working conditions standards in third-world apparel producers.” He said, “I don’t think that’s a contradiction of my earlier views,” explaining:

At this point...there really isn’t any competition between apparel production in poor countries and rich countries; the whole industry has moved to the third world. The relevant competition is instead among poor countries...

If we do this for Bangladesh, and only for Bangladesh, it could backfire: the business could move to China or Cambodia. But if we demand higher standards for all countries—modestly higher standards, so that we’re not talking about driving the business back to advanced countries—we can achieve an improvement in workers’ lives (and fewer horrible workers’ deaths), without undermining the export industries these countries so desperately need. (Krugman 2013b)

Krugman (2013b) cites an essay from 1997 to represent his earlier views. But in the cited essay (Krugman 1997) he had justified his opposition to “international labor standards” on two grounds, only the second of which was that such standards might stop or “even reverse” industrial growth in developing countries. His other justification was:

First of all, even if we could assure the workers in Third World export industries of higher wages and better working conditions, this would do nothing for the peasants, day laborers, scavengers, and so on who make up the bulk of these countries’ populations. At best, forcing developing countries to adhere to our labor standards would create a privileged labor aristocracy, leaving the poor majority no better off. (Krugman 1997; cf. Yglesias 2013b)

Another issue that Krugman has addressed is minimum wage legislation. In a 1998 book review, Krugman criticized “the ‘living wage’ movement,” dismissing its proponents as “basically opposed to the idea that wages are a market price” and asserting that “the broader political movement of which the demand for a living wage is the leading edge is ultimately doomed to failure.” In support of his position against *much* higher minimum wages, Krugman (1998b) brought forth arguments that could also be used against mildly higher minimum wages, or, indeed, against the existence of a minimum-wage policy—but while the overall thrust of the piece seems to run against minimum wages, it does not argue that the minimum wage should be kept at the same level, decreased, or eliminated. Today, Krugman is simply open in his support of a mild increase in the minimum wage (Krugman 2006; 2007a, 261-262; 2013a; see also Briggeman 2013, 8-11; Yglesias 2013a).

Krugman has, perhaps, become more sanguine about government budget deficits and debt (cf. Barkley 2010, 123-128). In *The Age of Diminished Expectations*, Krugman fantasized about “a day of reckoning” on budget matters:

If there were any justice in the world, there would be a dramatic end to the deficit story: The adverse consequences of the deficit would

become spectacularly apparent in an economic crisis, and the public would rise up and throw the rascals out. But of course there isn't any justice in the world. While there are possibilities of disaster, they don't have to materialize. It is not only possible but probable that budget deficits at more or less the current level will continue for the rest of the century. There will be costs to these deficits, but they may never reach the crisis stage.

Why can America apparently be so irresponsible fiscally yet avoid drastic punishment? At least part of the answer is that even as short-term politics has come to rule the budget, apolitical professionals have placed themselves firmly back in control of monetary policy. (Krugman 1990, 77-78)

In the mid-1990s, Krugman criticized certain politicians for being insufficiently concerned about deficits and debt:

True believers [in supply-side economics] like Steve Forbes live in a never-never land in which there are no hard choices or painful tradeoffs, budget deficits will be cured by growth and poverty will vanish as the rising tide lifts all boats. ...

[T]he Republican nominee, whoever he is, will probably run not on the theme of fiscal responsibility but on a Reaganesque program of tax cuts. Such a program would promise growth, but it would deliver new and bigger deficits. ...

[U]nlike Mr. Reagan in 1980, a newly elected President... would find a Government already deeply in debt. Worse yet, the day is approaching when the baby boomers will start to retire and claim the trillions of dollars in Social Security and Medicare benefits they have been promised. (Krugman 1996a)

But in recent years Krugman has often said that politicians are overly concerned with deficits and debt, as here:

Deficit-worriers portray a future in which we're impoverished by the need to pay back money we've been borrowing. ...

Governments don't [have to pay back their debt]—all they need to do is ensure that debt grows more slowly than their tax base. The debt from World War II was never repaid; it just became increasingly irrelevant as the U.S. economy grew, and with it the income subject to taxation. ...

When Keynes was writing about the need to spend your way out of a depression, Britain was deeper in debt than any advanced nation today, with the exception of Japan. . . .

[D]ebt matters. But right now, other things matter more. We need more, not less, government spending to get us out of our unemployment trap. (Krugman 2012b)

Krugman says the policy response to the recession of 2007–2009 was ineffective, causing him to lose confidence in markets generally:

[W]e need “macroprudential” policies—regulations and taxes designed to limit the risk of crisis—even during good years, because we now know that we can’t count on an effective cleanup when crisis strikes. And I don’t just mean banking regulation; as [Emmanuel Farhi and Iván Werning (2013)] say, the logic of this argument calls for policies that discourage leverage in general, capital controls to limit foreign borrowing, and more.

What’s more, you have to ask why, if markets are imperfect enough to generate the massive waste we’ve seen since 2008, we should believe that they get everything else right. I’ve always considered myself a free-market Keynesian—basically, a believer in Samuelson’s synthesis. But I’m far less sure of that position than I used to be. (Krugman 2013e; see also Quiggin 2013)

It has been said that Krugman is more or less a present-day version of Milton Friedman, though possessed of an ideological stance opposed to Friedman’s (Cowen 2013, 173-174; Medema 2013, 197).<sup>38</sup> Krugman himself has offered much praise for Friedman (Krugman 2007b; 2013d), whom he sees as having adopted an effective political persona that was, for a time, salutary:

In the aftermath of the Great Depression, there were many people saying that markets can never work. Friedman had the intellectual courage to say that markets can too work, and his showman’s flair combined with his ability to marshal evidence made him the best spokesman for the virtues of free markets since Adam Smith. . . .

Milton Friedman the great economist could and did acknowledge ambiguity. But Milton Friedman the great champion of

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38. Cf. DeLong (2010): “He is the closest thing to an heir to John Maynard Keynes we have today.”

free markets was expected to preach the true faith, not give voice to doubts. And he ended up playing the role his followers expected. ...

In the long run, great men are remembered for their strengths, not their weaknesses, and Milton Friedman was a very great man indeed—a man of intellectual courage who was one of the most important economic thinkers of all time, and possibly the most brilliant communicator of economic ideas to the general public that ever lived. ... When Friedman was beginning his career as a public intellectual, the times were ripe for a counterreformation against Keynesianism and all that went with it. But what the world needs now, I'd argue, is a counter-counterreformation. (Krugman 2007b)

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## Simon Kuznets

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Simon Kuznets (1901–1985) was born in Russia. In 1922, Kuznets emigrated with his family to the United States. He earned his Ph.D. from Columbia University in 1926 and started working at the National Bureau of Economic Research the following year. Between 1930 and 1971, Kuznets taught at the University of Pennsylvania, Johns Hopkins University, and then Harvard University (Kuznets 1992a/1971). His ideological views do not seem to have changed significantly during his adult life.

Kuznets won the Nobel Prize in Economic Science for “for his empirically founded interpretation of economic growth which has led to new and deepened insight into the economic and social structure and process of development.” In a speech at the award ceremony, Bertil Ohlin praised Kuznets for having “consistently addressed himself to giving quantitative precision to economic magnitudes which seem [to] be relevant to an understanding of processes of social change. He has collected an extraordinarily large body of statistical material which he has analysed carefully, and...he has used this to shed new light on economic growth. In doing so, he has, among other things, developed methods for calculating the size of, and changes in, national income” (Ohlin 1992/1971).

During World War I, Kuznets attended school in Kharkov, Russia, where he became intrigued by the Bund, a Menshevik or Marxist-socialist Jewish organization advocating gradual change (Kapuria-Foreman and Perlman 1995, 1526). E. Glen Weyl argues that this brand of Marxism does “not clearly manifest in his later work” (Weyl 2012, xix), but Vibha Kapuria-Foreman and Mark Perlman suggest that “This fascination with the relative distribution of income matured into a life-long interest in the question of whether an improved relative distribution (meaning a movement to household income equality) was compatible with general economic growth. ... [Kuznets’s] concern with the benefits and costs of income levelling remained with him all of his life” (Kapuria-Foreman and Perlman 1995, 1526, 1529).

In a 1941 presentation, Kuznets spoke of challenges domestic and foreign: “In wrestling with these two groups of problems, public agencies will have to be called upon to assume greater and more varied tasks than in the past. Governmental activity may thus have to be more extensive than heretofore. A more vigorous foreign policy necessarily means a more active and potent central government; and to develop various offsets to the undesirable short term variability of domestic levels of economic activity requires a government that is much more [than] a mere night watchman of our security and property” (Kuznets 1953/1941,

292-293). Still, Kuznets warns: “The danger lies in the possibility of control of the government apparatus by interests and goals not in accord with those of society at large. In [the United States], as in many others, the development and crystallization of monopolistic groups reinforces elements that are not actually interested in preservation of economic freedom and individual initiative. We must recognize that foreign policy, even in democratic countries in the past, is an arm of governmental activity imperfectly controlled by the desires and interests of the wider groups of the population. The prospective increase in government activity, both in domestic and foreign areas, raises the problem of how to strengthen the mechanism of control to offset the dangers of authoritarianism” (ibid., 293).

Robert Fogel, many years later, reflected on the 1940s as a time of pessimism among economists, before a change: “Simon Kuznets, for instance, was the least ideological economist I have ever known, but even he was very cautious about the economy’s future late into the 1940s. By then, he began to believe that we had entered a new era of economic growth and maybe that the Great Depression was the exception, not the norm” (Fogel 2007, 44-45).

Kuznets was not active in public debate; he did not speak up on particular policy issues. But he did sometimes express a broadly political sense of purpose. Kuznets’s 1954 Presidential Address to the American Economic Association and his 1971 Nobel Prize lecture reflect his longstanding concern with inequality. In the former, he called for more intense and accurate research into the topic of income distribution in society: “better knowledge and comprehension of the subject are indispensable, not only in and of itself but also as a step in learning more about the functioning of society—in both the long and short run” (Kuznets 1955, 27). In his Nobel lecture, Kuznets took up the question of technology and its implications for inequality across countries: “Thus, concurrent with the remarkable positive achievements of modern economic growth are unexpected negative results even within the developed countries; while the less developed countries are struggling in the attempt to use the large potential of modern technology in order to assume an adequate role in the one and interdependent world (from which they cannot withdraw even if they wished to do so)” (Kuznets 1992b/1971).

Later, Kuznets said that “a major function of modern sovereign government is to help channel social and political adjustments to economic growth, to modify old and create new institutional patterns that would facilitate growth while limiting its inequitable effects. Given the variety of, and likely conflicts among, the group interests affected, an overriding sovereign power is required that would represent the interests and values of the community” (Kuznets 1979, 14-15).

On the topic of economic growth and its disturbance of the status among relative economic groups, Kuznets said: “Only if such conflicts are resolved without excessive costs, and certainly without long-term weakening of the political

fabric of society, is modern economic growth possible. The sovereign state, with authority based on loyalty and on a community of feeling—in short, the modern national state—plays a crucial role in peacefully resolving such growth-induced conflicts. ... [I]t can stimulate growth and structural change. ... [I]t can referee, select, or discard legal and institutional innovations that are proposed in the attempt to organize and channel effectively the new production potential” (Kuznets 1973, 252).

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# Finn E. Kydland

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Finn Kydland (1943–) grew up in a small farming community in Norway. He was the only one in his elementary school class to go on to high school. In high school, Kydland concentrated on math and physics; he has said “I knew more math at the end of high school than a typical American business or economics major” (Kydland 2005a). He continued to the Norwegian School of Economics and Business Administration, in Bergen. Kydland has explained why he chose that school, rather than the University of Oslo, which had greater prominence in academic economics:

When I started studying at NHH [the school in Bergen], it was not for the sake of studying economics. An acquaintance of mine...had set up a couple of innovative businesses...and he introduced me to business. I helped him with his accounting and soon realized I would rather be a business economist...than a civil engineer..., on which I had set my sights originally. So when I arrived at NHH I had no idea what modern economics was about. I thought I was studying to get qualifications to work in business. That I did not end up in business was basically an accident. (Kydland 2006, 360)

At Bergen, with his quick ability to learn computer programming, Kydland caught the eye of his professor Sten Thore. Kydland became Thore’s research assistant, which led to him visiting Carnegie-Mellon University, where he would go on to earn his Ph.D. in economics and be highly influenced by Robert Lucas and write his dissertation under Ed Prescott (Kydland 2006, 364-366). After getting his degree, he returned to Norway to teach at his undergraduate alma mater. After over a decade there, Kydland returned to Carnegie-Mellon (Kydland 2005a).

Kydland is extremely reticent about talking politics—he refuses to bite when interviewers try to draw out his political judgments (e.g., Kydland 2006, 378)—but it seems that Kydland leans toward free-market policies. Kydland signed a petition against protectionism (Hedengren et al. 2010).

Kydland and Prescott shared the 2004 Nobel Prize in Economics “for their contributions to dynamic macroeconomics: the time consistency of economic policy and the driving forces behind business cycles.” Kydland and Prescott (1977) famously explicated the time inconsistency problem, wherein even a benevolent ruler will switch away from a policy strategy that, in one sense, had been “optimal,”

if she does not commit to it from the start: Even a benevolent ruler may wish to go back on her promises, because of conflicting interests among the populace.

Kydland spoke on policy implications in a 2008 interview:

While it's important to determine the best policies, you have to be consistent over time, and that's difficult in the face of this discovery that optimal policy is time inconsistent. When they reevaluate policies in the future, policymakers will no longer have the incentive to take into account the effect on decisions that have already been made. In the long run, the prediction is that you'll be worse off.

So how can you commit policymakers to carry out consistent policies? We limit their discretion with rules designed to encourage time consistency. It seems to work better in the context of monetary policy than fiscal policy. In monetary policy, the attempts to isolate central bank policy from political pressure by, say, making the central bank independent, have been a good thing.

In some countries, it's clear that the central bank is very much under pressure from the rest of the government. If the bank's head doesn't do what the other policymakers want him to do, he's simply replaced. There are many countries in which the tenure of the central bank head has been on the order of a year or less. In Argentina, for example, there were years in which the central bank head was replaced five times. (Kydland 2008, 9)

Carlos Zarazaga describes Kydland's discovery of time inconsistency:

[T]he outcome of the game was different, depending on whether the players were forced to make all their decisions for the entire future at the beginning of the planning period (the open-loop solution in the so-called sequence space) or allowed to choose their actions one period at a time (the feedback solution in the so-called policy space). (Zarazaga 2008)

The insight, Zarazaga says, "had far-reaching consequences for the theory of policymaking":

It implied that the reason governments around the world seemed to be unable to implement policies that were the best according to optimal control theory was not necessarily, as it was widely believed, myopic or incompetent policymakers. Rather, it was the inherently dynamic nature of the policymaking process, when there is feedback from the

future to the present and societies lack commitment mechanisms to bind the decisions of not-yet-born policymakers. (Zarazaga 2008)

One application of time inconsistency Kydland and Prescott found was that while low capital taxes maximize consumer welfare, the short-run interest of government may be to drift toward higher capital taxes, a hazardous temptation if the government has not pre-committed to keeping tax rates low (Kydland 2005a).

When asked whether his work with Prescott was influenced by the work of Milton Friedman, Kydland responds, “No, not in the slightest.” He adds: Friedman’s “starting point was completely different. His basic message was that if you did not know enough about how economies reacted, measures you put in place could have the opposite from the desired effect. And that was simply not an issue in our work” (Kydland 2006, 374).

On business cycles, Kydland and Prescott argued that productivity changes led to business cycles, a view known as real business cycle theory. Working with Prescott, Kydland found that productivity shocks accounted for between 50 and 70 percent of business cycles. The finding went against both the monetarist and Keynesian stories of the business cycle (Zarazaga 2008).

An implication is that more fluctuations in monetary policy will actually reduce business cycle volatility as people do not adjust their output in response to price shocks. Kydland (2005a) says, however, “Of course, this reduction in volatility is by no means welfare improving!”

Kydland has commented that investors do not appear to respond to long-term tax breaks, but will respond to short-term ones. Long-term policy stability, however, he says is more important (Kydland 2005b).

In 2013, Kydland and Zarazaga released a working paper that reflects Kydland’s emphasis on expectations and on government as a dominant force that is quite possibly none-too-helpful, nor wise. The paper suggests that the U.S. economy is not recovering strongly from the Great Recession of 2008–2009 in part because of “the prospects of an imminent switch to a higher taxes regime prompted by the unprecedented fiscal challenges faced by the U.S. economy in peacetime” (Kydland and Zarazaga 2013, abs.).

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## Wassily Leontief

by Daniel B. Klein and Ryan Daza

Wassily Leontief (1906–1999) grew up in St. Petersburg, Russia. His father was a professor of economics at St. Petersburg University and traveled abroad, where he met his wife in Munich, who was of a rich Jewish family from Odessa. Leontief describes his immediate family as different from his grandparents who were Old Believers (Leontief 2006/1994, 347). He described his family's political ideology in a 1990 interview:

Our family was intellectual bourgeois with liberal views. When my father was young, he organized strikes at the factory of my grandfather. That, you know, is a typical Russian behavior. Later, when he was a professor, he seriously studied Marxism and did research on the economic situation of workers in Russia. This was the topic of his doctoral dissertation.

[My mother] was a well-educated woman, a *bestuzhevka*. She studied history of art. She knew four foreign languages. She was from a quite well-to-do family, but the young people from the family engaged in revolutionary activities. When my mother was young, at the beginning of the century, she was even arrested for participation in some activity against the Tsar. She was in prison, but it was not serious

imprisonment. She and my aunt told me that the governor of Odessa used to visit her in the prison and take her for a ride in his carriage. But then, her brother was a serious revolutionary; he was thrown in jail, and later was shot [for being a participant in a prisoner's rebellion]. (Leontief 2006/1994, 348)

Leontief spoke of the impact the Russian Revolution had on his family:

They did not get bitter. I never heard them complain about having lost everything they owned in the revolution, money and property. It was difficult for them. There was hunger, they had nothing to eat. There was nothing to heat the house with. And then, in 1919, we were evicted from our flat on Petrovskii Island. The flat was handed over to the hospital of the provincial training school for teachers. The University tried to help to keep the flat for my father, as one of its professors, but revolutionary sailors came and evicted us. We were given 24 hours to pack. And when it came to move our things, they told us, what clothes and furniture had to stay there, and which we could take. ... But my parents never complained and never talked with anger about what was going on. I recall only one time when they said to me: "Listen, we used to have enough money to educate you abroad. Now we do not. You must try to do it all by yourself". And that is what I did. (Leontief 2006/1994, 348-349)

Leontief was home schooled and went to the University of Leningrad in 1921, studying philosophy and sociology before settling on economics (Leontief 2006/1994, 349). He graduated with a degree in economics in 1925. He studied Marx in his undergraduate years, but he claimed he was "not a militant Marxist economist" and was "interested in Marx only as a classical economist," saying Marx "was always mixed up in math, and the labor theory of value didn't make much sense" (Leontief 1998, 117-118). His university studies were periodically interrupted by arrests for his criticism of communism. Leontief explained:

Students are students, always and everywhere. They always discuss world problems, they always dispute. And I disputed a lot with my student-comrades. Many of them were communists. ...

We argued about whether we needed freedom in our state or not, whether it should be limited or not. We argued about the situation in higher education. And I argued a lot with my communist colleagues. So when I said things that they found entirely impossible, I got taken to the Gorokhovaia, was held for several days, and then released again.

Thus my studies were interrupted from time to time. (Leontief 2006/1994, 349)

When asked if he was sure he was arrested for disagreeing with his communist classmates, Leontief responded:

Oh, there is no doubt of that, because the investigators knew absolutely everything I had said during those arguments. And then ... There was a student M. who had studied with me. He was a very convinced communist. We had argued a lot, but had friendly relations. I get angry quite rarely. Well, the investigators knew everything we had talked about face to face. I think M. was appointed to look after us because he understood the Bolshevik politics correctly. From the talks with the investigators I understood that M. gave a positive opinion about me. Maybe that was a reason why I was released. (Leontief 2006/1994, 349)

Leontief added:

At that time many professors, Pitirim Sorokin and others, were suspended from teaching. Later, in autumn 1922, they were all embarked on a ship and sent abroad. You know, much later Sorokin and I again met. That was already in America. We both taught at Harvard University in the 1930s. He told me much about this trip into exile, showed the photos of those who left Russia on the same boat with him. Well, at that time, in 1922, I together with two other students printed posters, and we went in the night to post them up. ...

We called for freedom: freedom of the press, freedom of expression, freedom in the state. We protested against the suspension from teaching of our professors. We went with the posters at three at night. But probably they knew about us in advance. We were followed almost from the very beginning. We went and stuck up the posters, but half a verst away some people followed us, then they overtook us and arrested us. We were sent to the Gorokhovaia. ...

At the beginning I was in a communal cell, but not for long, and then they transferred me into a solitary one. My cell was like a corner of this room. ... There were lots of cockroaches, which came in the night.

The interrogations were also at night, between three and four o'clock. I had long discussions with the chekists. At that time the chekists were not simple policemen, but intellectuals. Yes, yes, they were *intelligent*—in the 'All-Russian Cheka' there were intellectuals,

and even sincere, convinced intellectuals. Of course, they all told me: ‘We may still shoot you’. But they did not do it. We quarreled a lot, and I was not afraid of them. These were not at all such interrogators as they had later. And they released us. (Leontief 2006/1994, 349-350)

Leontief said he viewed these “episodes” as merely distracting:

I was absent from my studies only during the days I was under arrest. But it did not cause more serious problems. Don’t imagine, please, that I was an active fighter, a politician. For me, all I told you about amounted to insignificant episodes. And I was absolutely not afraid. But my parents—they worried about me a lot. I myself was not afraid, no. May be I did not quite understand, I was young, only 16 in 1922. The most important in life for me was always science. ... Even on the Gorokhovaia, in the solitary cell, I kept this up. At the university I was then preparing a paper on the economic views of Rodbertus. Now then, Rodbertus I read while sitting in the cell. ...

After getting out of jail, I went on arguing with the same people and on the same topics. But I was interested in other things. Science was the most important for me. It was science I took seriously. (Leontief 2006/1994, 350-351)

Leontief then emigrated, not because of his arrests for challenging communism, but in response to a censor’s ban on an innocuous article he had authored:

It was an historical-analytical article. It was very far from any politics or ideology. If they forbade even such an article ... I understood that it was not possible to work as a scientist here. Well, maybe to do partial work, but not to work normally. (Leontief 2006/1994, 351)

Leontief left for Berlin in 1925 (Leontief 2006/1994, 351). He earned his Ph.D. in 1928 before working his way to the University of Kiel’s Institute of World Economics, where he developed his idea of the input-output approach (Leontief 1998, 118; Kaliadina and Pavlova 2006, 340). Leontief was invited to the United States by the NBER in 1931. A year later he moved to Harvard and remained there for 45 years. In 1975 he relocated to New York University (Kaliadina and Pavlova 2006, 341).

Leontief received the Nobel Prize in economics in 1973 for developing the input-output method and applying it to important economic problems. The entry on Leontief in the *New Palgrave Dictionary of Economics*, authored by Robert

Dorfman, illuminates the nature and political use of Leontief's input-output analysis:

Leontief has insisted that the task of a theorist only begins with the proposal of a well-formulated theory; the central task is to show that the theory can be applied to real economies, that it leads to interesting predictions about the behaviour of those economies, and that those predictions can be checked and found to be reasonably accurate. This radically operational point of view led Leontief to his critical contribution: the perception that the coefficients that express the relationships among the sectors of an economy can be estimated statistically, and that they are sufficiently stable so that they can be used in comparative static analyses to give quantitative estimates of the effects of different economic policies, taking into account their reverberations throughout the economy along with their effects on the industries affected in the first instance.

It is almost impossible now to appreciate the task of confirming these conjectures in the early 1930s. Input-output computations depend on inverting large matrices; the most powerful computing machines in existence then were punch-card machines that could multiply, after a fashion, but could not divide. Solving a half-dozen simultaneous linear equations was a formidable calculation; Leontief envisaged systems that numbered in the hundreds.

Input-output analysis also required data of an unfamiliar type—coefficients specifying the amounts of various raw materials and intermediate goods required per unit of product in each sector. The US Census of Manufactures included many of these coefficients, but by no means all. The remainder had to be compiled laboriously from trade journals and scattered sources . . .

Beginning around 1933–4, Leontief concentrated on overcoming these difficulties by compiling coefficients for a 44-sector input-output table—about 2,000 coefficients—and making plans for their analysis. Since the solution of 44 simultaneous equations was far beyond the realm of the possible, the 44 sectors were consolidated into a scant ten for computational purposes. . . .

The importance of such tables for economic planning was recognized almost immediately. Within a few years, the US Bureau of Labour Statistics, with Leontief as a consultant, constructed a 400-sector table for projecting post-war employment by major indus-

tries, and the method was being applied all over the world for constructing economic development plans.

Leontief remained in the forefront of these developments. By 1944 he had calculated a table of input coefficients for 1939, comparable with the earlier two tables, and found a satisfactory degree of stability for most of the coefficients extending over two decades. ...

In 1948, Leontief established the Harvard Economic Research Project as a centre for applying and extending input-output analysis. He became director of the Project, and headed it for the next 25 years. He was particularly active in developing interregional input-output analysis and in introducing capital-coefficient matrices to derive the investment implications of changes in final demand and, thereby, to use input-output analysis to generate growth paths as well as static equilibriums of economic systems. (Dorfman 2008)

Leontief described how his aspiration to provide an empirical depiction of the economy differed from the approach of Keynes:

My attitude was rather critical because I felt that he developed his theory to justify his political advice. Keynes was more of a politician than an analyst. I never became a Keynesian, although I wrote some of the first criticisms of Keynes. If you look at my bibliography you'll find them. But I tried to do it systematically, that is, not so much the political side but just the approach, which was for me too pragmatic. Now, you improve the system, all right, but first describe the system in order to improve it. (Leontief 1998, 119)

In 1997 he said:

They [those who translated neoclassical economics into mathematics] would have made more progress if they really had good, very detailed, empirical information. For example, it would be very interesting to see how modern technological change has affected the demand for labor. It might reduce the demand for labor, and even create a social problem, because labor isn't just one more factor of production. Then you will have to support labor. My speculative intuition is that the government now has to support a large part of income through education expenditure, health expenditure, and of course social security—and possibly a kind of welfare—but social security is more important. My feeling is that ultimately the transfer of income so as to provide people money to buy consumers' goods will become part

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of social security. It's already very large—I'm amazed how large my family social security is. (Leontief 1998, 127)

In the same interview, Leontief spoke about where he thought American society was headed:

I think problems of income distribution will increase in importance. As I mentioned before, labor will be not so important, and the problem will be just to manage the system. People will get their income allocated through social security—already now we get it through social security, and we try to invent pretexts to provide social security for people. Here, I think, the role of the government will be incredibly important, and those economists who try to minimize the role of the government, I fear, show a superficial understanding of how the economic system works. (Leontief 1998, 130)

Leontief was throughout his career a proponent of government economic planning (see Leontief 1974). In a 1976 interview, Leontief stated:

I think that the economic concerns of today are a sufficient incentive to justify the need for planning. Planning is possibly the most difficult enterprise a society can undertake and, being difficult, it may produce all kinds of troubles. However, I believe its time has come. I've found recently that a very large proportion of various groups in the population are now ready, in favor of, and pressing for planning. ... Businessmen are now suffering from depression, shortages, and other troubles, and they clearly see that to have profits, along with social progress, there must be a rational approach to the economy. This calls for planning. (Leontief 1976a, 12)

He continued:

[R]adical economists who attack me and say, "What are you doing Leontief, putting terrific power in the hands of the powerful?" My answer is that I think transferring real power from one strata to another is an incredibly difficult process. I think if planning is introduced, the power structure will remain the same and planning will be done by the same people who are now running the country. Essentially, they are doing it anyway, so to my radical friends, my answer is, "Look, since it is being done, why shouldn't it be done more efficiently?" (Leontief 1976a, 13-14)

Leontief argued that the Soviet approach to planning had some merit:

For example, it's said that planning in Soviet Russia is a failure. However, some people find it quite remarkable that a country which is so terribly inefficient has been able to build a powerful economy second only to that of the United States. How did it happen? My explanation is this. It's a miracle that inefficient farms, inefficient offices and inefficient factories have been welded into a very powerful machine. Why? Because they do not make very *big* mistakes.

The difference between the Russian economy and ours is this. We are terribly efficient on the bottom, but we completely mess up the solutions to basic problems: energy, the cities, and so on. The Russians are terribly messy on the bottom, but compensate by not making really big boners. My hope is that American planning, having the advantage of efficient operations on an individual-plant level, will also avoid big mistakes. (Leontief 1976a, 15)

Leontief published an article on “National Economic Planning” in 1976, explaining:

The notion of national economic planning that I have in mind is meant to encompass the entire complex of political, legislative, and administrative measures aimed at an explicit formulation and practical realization of a comprehensive, internally consistent plan there can be, in this sense, no planning. But the preparation of a script is not enough; the play has to be staged and acted out. (Leontief 1976b, 6)

In 1980, Leontief spoke of “planning” in the context of a response to high energy prices:

After the last world war, French planning made a major contribution to the reconstruction of Western European economy. It can and should play an especially decisive role in mitigating the dramatic rise in the price of oil by meeting the challenge of “new technology” coming from within and of vigorous competition of the new third world industries from without. A carefully planned and skillfully managed response should permit the OECD countries to carry out the necessary readjustments and thus secure continuous economic and social advances. (Leontief 1980, 820)

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Speaking to the *Christian Science Monitor* in 1984, Leontief advocated more government planning in America:

“The problem of guiding the economy is like sailing,” [Leontief] says. “You need the wind and a rudder. The wind is the private profit motive. The rudder is government influence.”

The New York University professor continues: “The Russians have a big rudder, but have completely lost the wind.” In contrast, President Reagan has put a big sail on the American economy and the wind is blowing hard. “But if he doesn’t use the rudder he will end up on the rocks.”

With that image, Dr. Leontief supports some modest degree of state planning.

“Planning,” he says, “can never replace initiative, but initiative can never replace planning.” (Francis 1984)

Leontief said that the Reagan administration was taking “a Darwinian approach to economics” (Francis 1984).

In a 1985 op-ed in the *New York Times*, Leontief contributed some ideas on tax and social policy:

Large and steadily increasing Government spending on Social Security, medical care, education and other services contributes more to the reduction of inequality than the “progressiveness” of the personal income tax. This crucial point must not be overlooked in the debate on tax reform and Government spending.

When the progressive income tax was introduced in 1913, it represented the first attempt by our Government to redistribute income by correcting the automatic operation of free-market forces. Our economy is now much more complex and the role of the Government incomparably greater than it was in 1913. The Government now affects income distribution much more by how it spends than by the way it collects its revenues.

A strong argument can thus be made for replacing the system of personal and corporate income taxes, riddled with inefficiencies and fraud, by a much simpler general sales or value-added tax. One can make it “progressive” by imposing higher tax rates on luxury goods such as high-priced apartments, large pleasure boats and stretch limousines, and lower, possibly zero, rates on such necessities as staple foods and ordinary clothing. (Leontief 1985)

He concluded:

What all this means is that the maintenance of economic and social equity within the framework of a dynamic free-enterprise system will increasingly depend on properly directed and, of necessity, costly Government action. It also means that, as time goes on, we will need increasingly efficient means of raising taxes. (Leontief 1985)

In 1990, Leontief lamented the impact of budget cuts under Reagan:

Drastic cuts in public spending (except for military purposes) left the physical infrastructure of this country in ruin. City streets and transportation facilities, water supply and sewage systems, particularly in large metropolitan areas, are collapsing; the once glorious interstate highways are crumbling, and cramped airports are incapable of handling the rapidly increasing traffic. Despite the valiant effort of the underfinanced, underpowered Environmental Protection Agency, our lakes, rivers, and forests are succumbing to deadly acid rain.

What is even worse, the intellectual, cultural and social infrastructure of the country has suffered even more during the greater-than-ever boom than its physical counterpart. Primary and secondary schooling have been so weakened that a whole generation of boys and girls can hardly read, write or count, while the soaring price of higher education (which, in contrast to the United States, is free in most other advanced countries) makes it impossible for many young people to take advantage of it.

No wonder the competitiveness of the United States is rapidly declining; many of our high technology industries are losing one battle after another in the struggle for their share of the foreign market. At the same time, the rich are getting richer, and the poor are getting homeless. (Leontief 1990, E22)

In 1992, Leontief wrote an op-ed titled “Forget the Free Market” that summed up his previous statements on economic intervention and advocated a new New Deal:

Despite [the successes of the New Deal reforms], the debate on the role Government should play in a free market continued unabated. Opponents of “Government meddling” argued that a competitive market system automatically advances the economy’s productivity by eliminating the less competent in favor of more efficient producers.

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Advocates of an active Government argued that the simple picture of an ideal competitive market economy is unrealistic. They maintained that pursuing private economic goals often leads to undesirable repercussions like environmental damage; moreover, the process of natural selection, in which corporate dinosaurs can end up bankrupt and their workers unemployed, can be very costly.

The lively debate of these critically important issues came to a stop when, in the wake of a sharp political sea change during the Reagan years, Government was declared the enemy of the people, public servants were turned into idle bureaucrats and planning became a dirty word. Ten years have gone by and our deregulated economy is not only losing its competitive edge but also its ability to satisfy the material and cultural needs of society. (Leontief 1992)

He concluded by asking:

Why shouldn't our Government rehabilitate our demoralized and tattered Civil Service, and, using its expertise, again take a leading role in solving the difficult economic and social problems facing our country? (Leontief 1992)

In 1993, Leontief was asked if he believed President Clinton's economic plan would succeed. He responded:

President Clinton and his economics team as well as congressional leaders supporting them should realize that without massive and very costly rehabilitation the under-staffed and under-budgeted government agencies will not be able to carry out these necessary data-gathering and analytical tasks. Since major, quite legitimate business interests are bound to be affected by government actions, these tasks cannot be safely subcontracted to independent research organizations. The danger is that after the package is accepted, the planning process will inevitably be reduced to the usual sequence of uncoordinated interventions. (Leontief 1993)

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## Arthur Lewis

by Daniel B. Klein, Ryan Daza, and Hannah Mead

W. Arthur Lewis (1915–1991) was born on Saint Lucia in 1915. Having kept ahead of his classes, he worked in civil service from age 14 until 1932, when he was eligible to compete for a scholarship. He won the scholarship and went to the London School of Economics to study business administration and law although, as he put it, he “wanted to be an engineer, but this seemed pointless since neither the government nor the white firms would employ a black engineer” (Lewis 1992/1980).

Lewis was a self-described “social democrat” and a member of the Fabian Society, which he termed “the thinking arm of the British Labour Party” (Lewis

1992/1980; 1995, 5). The Fabian Society embraced the leaders of the Caribbean labour movement (Craig 1977, 59-60). In 1938, Lewis published a Fabian Society pamphlet titled *Labour in the West Indies*, which describes the rise of the new labour movement and how its goals were “to raise the economic and cultural standards of the masses, and to secure for them conditions of freedom and equality” (Lewis 1977/1938, 44). One proposal is equal distribution of income through the redistribution of property (ibid., 46). Norman Girvan describes Lewis’s early views:

He was...influenced by the Fabian brand of socialism that predominated in the British Labour Party of the 1930s. One of his first publications, on *Labour in the West Indies* in the late 1930s, was a pamphlet published by the Fabian society that argued that labour had assumed the mantle of leadership of the West Indian national movement. This made Lewis essentially a social democrat and a believer in the mixed economy; but more eclectic than ideological in his approach to matters of public policy. He was quite comfortable in recognising the limitations of the free market and the necessity for public intervention in instances of market failure. He was, however, instinctively opposed to authoritarian rule, whether of the left or the right. (Girvan 2008, 4)

Lewis pursued his Ph.D. in industrial economics at the LSE, where he had an assistant lectureship under Arnold Plant. Lewis remarks: “[Plant] and I had intellectual difficulties, since he was a laissez-faire economist and I was not; but this did not stand in the way of our relationship” (Lewis 1995, 3). After the LSE, Lewis was a professor at the University of Manchester from 1948 to 1958. From there, he went to serve as vice chancellor of the University of the West Indies, and then was professor at Princeton University from 1963 until his death in 1991.

Major works by Lewis include *Economic Survey 1919–1939* (1949a), *The Theory of Economic Growth* (1955), and *Growth and Fluctuations 1870–1913* (1978). He won the 1979 Nobel Prize along with Theodore Schultz for “pioneering research into economic development research with particular consideration of the problems of developing countries.”

In 1949, Lewis expressed his social democratic disposition in *The Principles of Economic Planning*, originally written for and published by the Fabian Society (Lewis 1995, 6). Twenty years later, Lewis noted that “the book is not, as its title might suggest, an academic study of theoretical principles, but rather a political statement” written mostly about “economic planning, defined for this purpose as government action designed to secure results different from those of the market” (Lewis 1969/1949b, vii-viii). In the book he brands socialism as a demand for

equality, social justice, and individual liberty, rooted in a more liberal tradition that holds that extensions of the state are necessary only when other social intuitions fail (ibid., 11). Lewis writes: “The market economy is wasteful. . . . Only state action can assure competition. In this, as in so much else, the market economy cannot function adequately without positive support from the state” (ibid., 14). He concludes: “There are no longer any believers in *laissez-faire*, except on the lunatic fringe. There are many who denounce planning in fierce language, and who appear by implication to be arguing for *laissez-faire*, but, on closer examination there are always a few pages in their books which give the game away. The truth is we are all planners now” (ibid.).

In 1961, Lewis continued to support planning, but his remarks about “capitalists” and “capitalism” are not hostile:

Capitalists are distinguished from other dominant classes by their passion for saving and for productive investment. Earlier dominant classes had different ambitions. Priestly classes saved, but they usually invested their wealth in monuments and churches rather than in factories and farms. Landowners saved, but in their heyday they used their savings to buy more land, rather than to invest in improving land; and the persons from whom they bought were usually in distress, and selling to finance consumption. Now landowners in developed countries have learned to behave like capitalists, but elsewhere landowners are still not prone to productive investment. The capitalist was the first dominant type to make saving and productive investment into a religion of life.

As capitalism develops within a backward economy, the proportion of the national income accruing as capitalist profits increases all the time, and so the share of the national income saved and invested grows automatically until the economy is fully converted to capitalism, when the share of profits in the national income is stabilized. All the countries now developed have gone through this process, except the USSR; and the countries now in line for development can tread the same path if they so desire.

For the most part they do not so desire. This is not primarily because of anti-capitalist ideology. Most of the leaders of new states proclaim some sort of socialist leaning, but within a year or two of taking office their desire for development proves stronger than their antipathy to capitalism, and they adopt programs for stimulating private capital investment, and for stimulating even the foreign private capital investment which they have hitherto denounced. Their main

objection to relying solely on the growth of private capitalism is that it is so slow. By this method it may take anything up to a century to raise the rate of domestic saving from 5 to 10 per cent. Most political leaders want quicker results than this. (Lewis 1961, 45)

Lewis then made comments about “irresponsible politicians”:

What is lacking in most of these countries is not the means but the will. For what is involved is that political leaders should give priority to economic development over their other pursuits, at least to the extent of agreeing not to use the strains created by development policies as weapons for attacking each other. But no such priority is accorded. Most political leaders in the new states find other issues much more exciting than economic development, and also more rewarding as possible sources of political power.

It is clear that a number of the new states have an awkward stage to pass through, during which their affairs will be dominated by men who are mainly interested in preserving the privileges of their own group; or in tribal, religious, racial, or language disputes; or simply in military adventure. For a number of these states their very existence as nations will be at stake, either because they are menaced by external aggression, or because of internal tensions leading to civil war or disintegration. Even some countries which have no deep tribal or other divisions seem likely to stultify themselves by an overproduction of irresponsible politicians. Politics is exciting to young countries, and politicians in these countries have attracted to themselves all the glamour which was previously reserved for priests and kings, not excluding the military parades, the salutes of guns, the yachts, and the country houses. We must resign ourselves to the fact that many of the new countries will be too preoccupied with other matters to give to economic development the priority which it needs. (Lewis 1961, 46)

In a 1980 interview, Lewis seemed to defend free market prices. Lewis was asked if he thought “industrial capitalism depended on the exploitation of labor and raw materials in the less developed countries.” He replied:

The answer depends on what you mean by exploitation. I agree that there’s exploitation, but it comes from the free working of the market. The producer of cocoa gets a free competitive price which is determined by the alternative costs and the producer of steel also gets a free, competitive price. There’s no point at which the producer of steel

is oppressing the cocoa producer. They're all buying and selling in the market. (Lewis 1980, 26)

Lewis said, however, that free market prices are unfair. This led the interviewers to ask: *"Let's pursue this question of commodity prices being unfair, even though they are determined in freely competitive markets. Are you suggesting that there are some villains in the piece or is it just bad luck that it comes out that way?"* Lewis responded:

No, I don't see any villains. I see the market working in a way that is disadvantageous to the people living in the tropics. Very simply, what accounts for the relative prices of cocoa and steel? Why does a fellow who grows cocoa, however diligently and by the best-known techniques, walk around the place in bare feet, while the fellow who makes steel in a temperate country lives at three, four, five times that standard of living? That is unfair...[b]ecause the terms of trade between these countries—what we call the factoral terms of trade—are based on market forces or what economists call opportunity cost, not on the just principle of equal pay for equal work. ... It would be fair if, given two people with equal diligence, intelligence, and equal work, these two people were paid the same. That's the basic proposition of economists within economic theory. (Lewis 1980, 27)

Lewis goes on to suggest taxation to finance development, a suggestion the interviewers define as socialist. Lewis retorted with a case for income redistribution through taxation rather than economic nationalization:

Socialism is one thing, planning is a different thing. The two don't necessarily go together. Socialists have many different objectives. People mean different things when they describe themselves as socialists. I am concerned with poverty and I am concerned that one should, in any social system, make provisions of all kinds for the poor to the extent allowed by the national income of the country concerned. That's a number one priority for me. I'm a little man socialist rather than a big man socialist. I am more in favor of stimulating small-scale production, small entrepreneurship, than of nationalization as such, though I'm perfectly willing to nationalize in circumstances where this can be handled. (Lewis 1980, 28)

Lewis was asked what his objection was to a "strict laissez-faire route to development." He said:

Socialists, if you go back to the nineteenth century, when socialism originated, object to the proposition that to develop a country you have to make a few people rich so that they can save and invest. And the whole purpose, the whole mechanism of laissez-faire is based on creating a few rich families. Now that idea is congenial in Europe because it has existed there for several centuries. But if you're starting to make a new society in Angola, Mozambique or Nigeria, you ought to take a different route. ... What we object to is the creation of private fortune, which is created by saving that comes out of profits. But you could just as well promote the saving through some public institution. (Lewis 1980, 30)

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# Robert E. Lucas Jr.

by Daniel B. Klein and Ryan Daza

Robert Lucas (1937–), was born in the Seattle area during the Great Depression. Lucas talked about the impact of the Depression on the economy and on himself:

I think that economic growth, and particularly the diffusion of economic growth to what we used to call the Third World, is the major macroeconomic event of the twentieth century. But the Great Depression is a good second. I was too young to know what was going on at the time, but the Depression was the main influence on my parents. They became politically aware during the 1930s. Politics and economics were issues that were always talked about in my house when I was growing up. (Lucas 1998, 121)

For college, Lucas had intended to pursue engineering, but, as the University of Chicago offered him a scholarship but had no engineering program, he instead went into history. After earning his bachelor's degree, he went for a graduate degree in history at the University of California at Berkeley. An economic history course inspired Lucas to switch to economics; he abandoned the history program and returned to the University of Chicago to earn his Ph.D. in economics (Lucas 1996). Lucas recounted:

I was getting more interested in economics and economic history as a history student. The work of Henri Pirenne, the Belgian historian, who stressed economic forces influenced me. When I was at Berkeley I started taking some economic history classes and even attended an economics course. That is when I first learned what a technical field economics is and how impossible it would be to pick it up as an amateur. I decided then that I wanted to switch to economics. I didn't have any hope of financial support at Berkeley to study economics so that was what led me back to Chicago. (Lucas 1998, 120)

Lucas continued to study history. In 2008 he stated: "I read [Karl Marx's *Communist Manifesto*] as an undergraduate student and I liked [his] sense that economic theory could give us a unified way about thinking about all known societies. I thought that ambition was a noble one, and an accurate one, and I bought into

it. Economics is an extremely powerful way of looking at the forces that shape any society. In that sense, all of us economists are Marxists” (Lucas 2008, 3).

Upon earning his doctorate, Lucas went to Carnegie-Mellon, where he taught for a decade before returning to Chicago, where he has stayed since 1974.

At Chicago, Lucas learned under Milton Friedman. Lucas recalls that Friedman’s influence went beyond academics:

For many of us, the shock wave of Friedman’s libertarian-conservative ideas forced a rethinking of our whole social philosophy. Intense student discussions ranged far beyond technical economics. I tried to hold on to the New Deal politics I had grown up with, and remember voting for Kennedy in 1960. ... But however we voted, Friedman’s students came away with the sense that we had acquired a powerful apparatus for thinking about economic and political questions. (Lucas 1996)

In an earlier interview, Arjo Klamer asked Lucas: “Who were important teachers for you?” Lucas responds:

Well, Friedman was the big influence here. He taught our first Ph.D.-level price theory courses, just basic economic theory. Friedman is a really gifted teacher plus a superb economist. ... Another big influence was Samuelson’s *Foundations*, which I read when I started here at Chicago. It’s a ‘how-to-do-it’ book, a great book for first-year graduate students. ... It lets you in on the secret of how you play the game, as opposed to cutting you off with big words. I think the combination of Samuelson’s book plus Friedman’s class was what got me going. (Lucas 1984, 30)

Lucas is known as a founder and advocate of the rational expectations approach to economics. Lucas has applied rational expectations to many macroeconomic issues, including taxation, inflation, economic growth, and asset pricing (Henderson 2008; Barseghyan 2008). A corollary of rational expectations is what is known as the Lucas Critique. Because a change in policy changes people’s actions, a proposed policy should not assume that people’s behavior will stay the same. It “implies that the effects of a new policy cannot be assessed according to econometric estimation of the private sector’s behaviour under the old policy” (Barseghyan 2008). Lucas won the Nobel Prize in 1995 “for having developed and applied the hypothesis of rational expectations, and thereby having transformed macroeconomic analysis and deepened our understanding of economic policy.”

Lucas shows a disinclination to stand for any particular ideological outlook: “I don’t like talking about how big government should be. I like talking about costs and benefits of particular programs. That seems to be the right way to talk about it” (Lucas 1984, 54). Elsewhere he says that “The beauty of neoclassical economics is that it’s not a revolutionary all-or-nothing kind of thing. It is a reformist line of thought so that you really have to take issues one at a time” (Lucas 1993). On becoming an economic advisor in Washington, Lucas responded in an interview: “I like economics and I think economics is hugely relevant on almost any issue of national policy. The more good economists are involved, the happier I am. But I don’t personally feel drawn to doing it” (Lucas 1998, 136).

When asked by Klammer “Are you conservative?,” Lucas responded:

I don’t know. I thought I was at Carnegie, but around here [Chicago] I don’t know. This place has a pretty wide spread of political opinions, and I’m never going to be anywhere near the far-right end of the spectrum for Chicago. But I’m not too close to the far-left end either. It’s hard to be a conservative with the Reagan administration turning to fine-tuning, which seems insane to me. So, if being conservative means liking their economics, I guess I’m not. (Lucas 1984, 51)

Klammer also asked, “But do you, more or less, agree with Friedman’s ideas in *Free to Choose* or *Capitalism and Freedom*?” Lucas replied, “I like *Capitalism and Freedom* a lot. It’s really written for economists in a way that *Free to Choose* isn’t. *Free to Choose* gets careless about a lot of points that *Capitalism and Freedom* is very careful about” (Klammer 1984, 52).

In an interview published in 1998, Lucas was asked if the work of Hayek and the Austrians had any influence on his work. He responded: “I once thought of myself as a kind of Austrian, but Kevin Hoover’s book [Hoover 1988] persuaded me that this was just a result of my misreading of Hayek and others” (Lucas 1998, 121).

On Keynes and the *General Theory*, Lucas has said:

Of course Keynes is an extremely important figure in twentieth-century history, but I think his major influence was ideological. The Depression followed soon after the Russian revolution, and there was a lot of idealism about socialism as a way of resolving economic problems, especially as the Soviet Union had no depression. Keynes went to great lengths to disassociate himself from the rest of the economics profession in the *General Theory*, making almost no references to mainstream economists in the entire book, compared to the

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*Treatise on Money* which is full of references to mainstream economists. The message of the *General Theory*, in which he emphasized the seriousness of depressions, is that they can be solved within the context of a liberal democracy without having to resort to centralized planning. That was a highly important message which certainly sustained defenders of democracy in countries like yours and mine that maintained it. It helped to organize the entire world after the war and was the flag around which liberal democracies rallied. The *General Theory* was an unusually important book in that sense. Maybe more important than economic theory. But that seems to be a different question from that of the influence of Keynes's theoretical ideas on the way we practise economics, which I think is now very slight. (Lucas 1998, 122)

In the same interview, Lucas blamed “awful politics” for subpar levels of growth in Africa:

There has been much too much socialist influence. The common feature of countries like Taiwan, Korea, Japan is that they have had some kind of conservative, pro-market, pro-business, economic policies. I mean I wouldn't exactly call them free-trade because Japan and Korea at least are very Mercantilist in their trade policies, which I don't approve of. But it is better than socialism and import substitution by a long, long way. (Lucas 1998, 135)

During the Clinton Administration, Lucas was asked what he thought about the rush of “neo-Keynesians” to Washington. He responded:

What troubles me about neo-Keynesians is not so much that they have a definite clear-cut ideology that I dislike, but that they have too little ideology. They're too good at rationalizing anything. So if I'm worried about anything, it's that economics as a kind of independent force won't really be operating in this administration. These guys have enough talent to put a kind of semi-respectable economic rationale on whatever the hell the politicians come up with. I don't see a neo-Keynesian agenda on policy issues. (Lucas 1993)

Lucas entered an historically oriented exchange with Niall Ferguson about the merits of British imperialism. Lucas casts doubt on the benefits of British imperial rule, and adds: “The one glorious exception to these generalizations is the postwar miracle of the Crown Colony of Hong Kong. This was the product

of *laissez faire* economic policies introduced by a maverick administration that was completely out of step with the socialists back home” (Lucas 2003).

During the presidential election of 2008, Lucas’s sister appealed to their upbringing and Lucas agreed that voting for Barack Obama in 2008 would have meant a lot to Lucas’s parents. He cast a Democratic vote, a rare thing for him. “This [history of racism] has been the worst blot on this country. All of a sudden this charming, intelligent guy just blows it away. It was great” (Lucas 2011). Moreover, Lucas says 2008 Republican candidate John McCain “didn’t have a clue about the economy” (ibid.). Lucas had high hopes for President Obama: “I just assumed the guy [Obama] could do it. I thought he was going to be more Clinton-like in his economics and politics. I was caught by surprise by how far left the guy is and how much he’s hung onto it and, I would say, at considerable cost to his own standing” (ibid.).

Still, in 2008 Lucas signed a petition supporting John McCain for president. He has also signed petitions supporting Mitt Romney for president in 2012, against anti-“sweatshop” measures, supporting Social Security reform in the direction of individually owned accounts, and supporting increased immigration (Hedengren et al. 2010).

Speaking of the financial crisis specifically, Lucas has applauded the initial expansionary monetary and fiscal policies of Ben Bernanke and President Obama: “It’s not an inappropriate thing in a recession to push money out there and trying to keep spending from falling too much, and we did that” (Lucas 2011). Now, however, Lucas believes the economy requires longer-term policies. “The president keeps focusing on transitory things. He grudgingly says, ‘OK, we’ll keep the Bush tax cuts on for a couple years.’ That’s just the wrong thing to say. What I care about is what’s the tax rate going to be when my project begins to bear fruit?” (ibid.).

In a recorded interview in 2012, Lucas indicates that he dislikes socialized medicine and high marginal tax rates. He criticizes “this myth that there’s some rich people out there that can pay for anything we want to do—it’s just not true” (Lucas 2012). Further, he says, this policy approach “ignores the huge incentive effects of high marginal tax rates...but it doesn’t kill you, it just hampers you. ... Without these policies that have occurred during this administration that I mentioned, I think we would have recovered long ago” (ibid.).

In 2008, Lucas was asked if he was 18, would he become an economist all over again. He responded:

I like thinking about social policy, about history, about the workings of society. I always have. I got drawn to that before I even knew there was such a thing as economics really, in courses I had in school and so on.

Like Marx and Engels, the questions those guys were asking, or even thinking about, that's what I wanted to do. I think, if I was 18, I'd still have that view. (Lucas 2008, 15)

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## Harry M. Markowitz

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Harry Markowitz (1927–) was born and raised in Chicago, where his parents owned a grocery. Markowitz says they lived in a “nice apartment” and he “never was aware of the Great Depression” (Markowitz 1991b).

Markowitz says his philosophical “trains of thought” began in high school while reading books like Darwin’s *Origin of Species*. He commented: “I was especially fascinated with how Darwin marshalled his facts, argued his case and considered possible objections.” He subsequently read books on physics, astronomy, and philosophy “from wonderful big, old, musty used book stores then in downtown Chicago.” Markowitz considered David Hume to be “his” philosopher, one who he says “impressed me the most” (Markowitz 1993, 3).

He went to the University of Chicago for undergraduate and graduate school, and, interested in questions about utility, he was drawn to economics. His dissertation was about finding solutions on “how to compute efficient sets for large numbers of securities, and how to incorporate mean-variance analysis into the theory of rational behavior under uncertainty.” Markowitz recalled Milton Friedman saying, “I’ve read your dissertation and can’t find any mistakes in it. There is just one problem: this is not a dissertation in economics. We cannot award you a Ph.D. in economics for a dissertation that is not economics.” Markowitz did earn his doctorate that day (Markowitz 1991a/1959, 382).

At Chicago, Markowitz became involved with the Cowles Commission, and at Jacob Marschak’s suggestion, worked on applying mathematics to the stock market (Markowitz 2013). Markowitz joined the RAND Corporation in 1952. He then became professor at Baruch College in New York before joining the University of California at San Diego.

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Markowitz's famous portfolio theory, first published in 1952, would earn him the Nobel Prize in 1990. The theory shows that risk is related to covariance as well as variance. Varian explains: "if a portfolio is highly diversified, so that the amount invested in any given asset is 'small,' and the returns on the stocks are highly correlated, then most of the marginal risk from increasing the fraction of a given asset in a portfolio is due to this covariance effect" (Varian 1993, 161).

In 1993 Markowitz expressed his own countenance toward aspirations of contributing to the social good:

Some economists report that they entered economics to better mankind's state (e.g., see Szenberg [1993]). I have never thought it in my power to much improve the human condition generally. Much of human ill is due to violent aggression, political suppression, ancient hatreds and the like. These are not matters I know how to deal with, either from my training as an economist not with the decision making techniques I have developed. Together with my wife, I try to be a good neighbor, contribute moderately to charity, try to help my children, grandchildren, students and colleagues when I can be of service, and the like. That done, I feel that I have paid my dues and may indulge myself in life's pleasures, including the struggle with interesting problems and questions of philosophy. (Markowitz 1993, 8)

Although Markowitz does not appear to have written openly about his ideological beliefs, he has commented on the recent recession. Bailouts, he says, will not fix the underlying problems: "What good is supervision, for example, if supervisors have no more idea than anyone else of the value of supposedly 700 billion dollars worth of pieces of paper?" (Markowitz 2008). Over time, however, he believes the market will recover once information about bad risk-taking becomes available. Applying his own portfolio theory, Markowitz points out what he sees as the origin of the crisis: "Diversifying sufficiently among uncorrelated risks can reduce portfolio risk toward zero... [b]ut financial engineers should know that's not true of a portfolio of correlated risks" (Crovitz 2008). To avoid such crises, Markowitz says: "If the choice is requiring mortgages for people who don't qualify or keeping the banking system sound, we should learn to opt for sound banking every time" (ibid.).

In a 2008 piece titled "What to Do About the Financial Transparency Crisis," Markowitz outlines a "proposal for gaining insight into these instruments," a proposal apparently to be carried out by a government agency or under government supervision (Markowitz 2008). It involved four parts: (1) a census of the makeup, rules, and ownership of financial instruments, (2) calculation of

the exposure of the instruments, (3) categorization of the exposures, and (4) dissemination of the information on a “need-to-know basis” to private decision-makers and analysts. He elaborates on the first part, the census itself:

With respect to Point (1), the size of the proposed survey is not large as compared to government efforts such as the Census Bureau’s Annual Survey of Manufactures (ASM). The motivation for responding to the proposed survey can include whatever motivates the respondents to the ASM, plus the additional motivation that if you don’t respond we (the government) will assume that your paper is worthless, evaluate your firm on that basis and maybe shut you down. (Markowitz 2008)

Regarding making information from the project available on a need-to-know basis, he adds:

As to Point (4), clearly stockholders, counterparties, regulators and invited merger partners have a right as well as need to know risk exposures of a firm. Academicians perhaps can do with aggregates, or use databases confidentially, and may contribute to an understanding of how not to get into this mess again. (Markowitz 2008)

In a 2009 paper, he continued:

First and foremost, Congress should instruct Fannie Mae that the safety of the banking system must take priority over the objective of providing housing for low-income families. Second, the government should sponsor a survey of direct exposures and an analysis of indirect exposures of obscure financial instruments. This action is necessary to help restore clarity and trust to the financial system. Third, regulators should recognize that credit default swaps are insurance against correlated risks and are thus subject to much greater *portfolio* risk than is a portfolio of uncorrelated risks.

In general, businesses should understand that financially engineered products are based on assumptions regarding not only parameter estimates but also model specification (model risk). With a highly leveraged portfolio of marked-to-market products, such a misspecification can have disastrous consequences. (Markowitz 2009, 27)

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## Eric S. Maskin

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Eric Maskin (1950–) grew up in New Jersey, and in high school he found an affinity for mathematics. He attended Harvard University and earned a bachelor's degree in math. During his undergraduate education he happened upon Kenneth Arrow's class on information economics, "which was so inspiring that I decided to change direction. It seemed to me that economics combined the best of both worlds: the rigor of mathematics with the immediate relevance of a social science" (Maskin 2013a). He continued at Harvard for his master's and Ph.D. in applied mathematics, but focused on economics. Under Arrow's direction, Maskin wrote his dissertation on mechanism design and social welfare (Maskin 2008). As in his dissertation, Maskin's early work focused on mechanism design implications for social choice. Later he worked on auctions, monopoly, and game theory, specifically discontinuous games (Cowen 2007).

## ECON JOURNAL WATCH

Maskin has taught at several universities, but has spent most of his time on faculty at the Massachusetts Institute of Technology and Harvard. Maskin shared the 2007 Nobel Prize in economics with Leonid Hurwicz and fellow Arrow student Roger Myerson for mechanism design theory.

In a 2007 interview, Maskin discusses the application of mechanism design theory:

Many goods, such as clean air, the environment or national defense, are not even provided by the markets. Yet these public goods all have to be provided and there has to be some determination made about how much to provide. For ordinary goods, existing markets can often decide how they should be provided. But for public goods, existing markets often either don't work at all or do not work very well. So mechanism design theory lets us think of how alternative institutions, besides markets, may reach a determination of the right level of certain goods. (Maskin 2007, 15)

When asked whether he prefers one type of economic system, Maskin responded:

Mechanism design theory is not in favor of, or opposed to, one system or the other. Instead it recognizes limitation in a system, especially for public goods. (Maskin 2007, 15)

According to Maskin's kind reply to our questionnaire (reproduced at the end of this profile), his early views were further left than those of his parents (Maskin 2013b). Through college, he became "even more left-wing (had some socialist sympathies)." In his thirties and forties, however, he gradually drifted toward the center, although still to the left. He describes his economic views as being more moderate than his social views (*ibid.*).

Maskin contributes to the IGM Economic Experts Panel, which was assembled as part of an Initiative on Global Markets at the University of Chicago Booth School of Business. Panelists are asked via email, at fairly regular intervals, to respond to structured survey questions about economic events and policies, and each panelist's responses are made publicly available. The responses from Maskin (2013c)—the only Nobel laureate on the panel—seem to indicate support for liberalizing restrictions on international trade, immigration, rental housing prices, "soft drugs," resale of tickets to entertainment events, and performance of healthcare services by licensed nurses, physician assistants, dental hygienists, and pharmacists. He gave a response of "uncertain" to a question on the consequences of implementing school vouchers, and also to a question on the consequences of

increasing the minimum wage. His responses seem to indicate support for carbon taxes, more federal infrastructure spending, and the auto industry bailout.

Maskin has been vocal on some policy and political issues. He has signed a petition supporting “cap and trade” (Hedengren et al. 2010). Maskin was one of four Nobel economists to join an amicus brief in support of the section of the Patient Protection and Affordable Care Act that “requires, with certain exceptions, all Americans who can afford a minimum level of health insurance either purchase such insurance or pay a penalty to the United States Treasury” (Rosen et al. 2012, 1). Maskin has suggested getting rid of patents (Maskin 2012a). He has also proposed reforms to U.S. election law, suggesting an open general election based on voter preference rankings rather than primaries (Maskin 2010).

Maskin advocates financial regulation and opposes austerity measures. He also favors Keynesian stimulus (Maskin 2013b).

Regarding the financial crisis, Maskin sees the need for addressing negative externalities of the banking industry:

I don’t really understand why politicians and policy makers had such faith in the self-regulation of financial markets—perhaps ideology had something to do with it. Certainly, such faith was not based on a good understanding of economic theory, which shows very clearly how financial markets can fail because of serious externalities. I hope that we remember going forward that financial stability depends on correcting these externalities, and that a good way of doing so is regulation—especially, regulation of leverage. (Maskin 2013a)

Also on the issue of banking reform, Maskin has said: “What you have to do is to take the old regulatory system and extend it to the new institutions that have so far escaped the purview of the regulatory system that ought to be overseeing them” (quoted in Boland 2008).

A report on a 2010 talk by Maskin on the recent recession reads:

Eric Maskin... said: “There is no realistic hope for stopping (another) crisis altogether.” However, well-designed government regulations might reduce the probability of a crisis and (help investors) better cope with one when it occurs. For example, placing limits on leverage and higher capital requirements for investment banks “is potentially one of the more effective proposals out there,” Mr. Maskin said. Furthermore, imposing a minimum standard for loans could help limit credit risks that banks can take. ... “However each crisis is at least somewhat different from its predecessor... Even if we fix the

originator problem, the next time, the originator problem will likely occur some place else.” (Hua 2010)

For Europe’s troubles, Maskin recommends Eurobonds rather than austerity programs, which he sees as exacerbating the fragility of European economies. Maskin says that since “rescue plans create a moral hazard problem, ...the fiscal consolidation of Europe (including the power of a central authority to constrain member countries’ domestic spending) is so important” (Maskin 2013a).

Maskin has also been concerned about greater inequality as a result of globalization. Maskin and Michael Kremer studied globalization and concluded: “However, if people measure their status relative to others in their own society, then they will perceive inequality increasing. This analysis corresponds to the view of many anti-globalization protestors that globalization benefits elites in both rich and poor countries” (Kremer and Maskin 2003, 25). Nevertheless, Maskin sees great benefits of globalization, namely, raising average standards of living around the world. Globalization, he says, has often increased prosperity, but also increased inequality in many developing countries (Maskin 2012b, 3). He holds that the solution to rising inequality is not to halt globalization but for governments and NGOs to improve education and training for low-skilled workers (TSEconomist 2013; Maskin 2012b, 25).

Professor Maskin generously responded to our questionnaire:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My parents were liberals (in the American sense), and I was too. Probably, I was a bit more left-wing (for example, I strongly favored affirmative action in college admissions, and they were more doubtful).

*2. How about at age 25 or so? Had they changed at all by then?*

If anything I was even more left-wing (had some socialist sympathies).

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

Gradually evolution toward the center.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

Still to the left of center. Strongly liberal on social matters—e.g., favor abortion rights, gay marriage. Somewhat more centrist in

economic matters, but favor Keynesian stimulus, oppose austerity measures in times of low inflation/high unemployment, and favor tougher regulation of leverage in the banking industry.

5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?

Views, at least in economic matters, have become more moderate (but still to the left).

6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.

All of the above. (Maskin 2013b)

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## Daniel L. McFadden

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Raised on a farm in North Carolina, Daniel McFadden (1937–) says he was taught as a youth to “be modest, take my satisfaction from work done well, and avoid being drawn into competition for status or rewards” (McFadden 2001). As a junior in high school, McFadden was suspended for starting a petition against a school policy. He went to work on his uncle’s farm in Minnesota, and at age 16 was admitted to the University of Minnesota (*ibid.*). He earned his bachelor’s degree in physics and also became interested in mathematical modeling of economic choices. In an 2000 interview, McFadden discussed how he came to study economics:

Well, I came from the natural sciences, from physics. I was a graduate student in physics and found psychology very interesting, and the psychology of behavior. I had an opportunity to enter this disciplinary program in the behavioral sciences. And I pursued that for my Ph.D. and got into economics pretty much by accident, because the formal modeling, the axiomatic work that I was interested in was being done primarily by two economists, John Chipman and Leo Hurwicz. So I made economics my specialty in order to work with them. (in Heckman and McFadden 2000)

At Minnesota, he worked with Hurwicz and Chipman, and he visited Stanford to work with Kenneth Arrow. After earning his Ph.D., he did post-doctoral work at the University of Pittsburgh, and then was on the faculty of the University of California at Berkeley. After spending over a decade at Berkeley,

McFadden went to MIT, where he enjoyed the intellectual climate fostered by Paul Samuelson, Robert Solow, and Franco Modigliani. In 1991, he returned to Berkeley, where he started the Econometrics Laboratory (McFadden 2001). He earned the 2000 Nobel Prize “for his development of theory and methods for analyzing discrete choice,” sharing the prize with James Heckman.

A major contribution came about when a graduate student sought his help modeling freeway design choices, which led him to build “an econometric model based on an axiomatic theory of choice behavior” (McFadden 2001). The applicability of his ideas is broad:

These developments, now called the multinomial logit model and the random utility model for choice behavior, have turned out to be widely useful in economics and other social sciences. They are used, for example, to study travel modes, choice of occupation, brand of automobile purchase, and decisions on marriage and number of children. (McFadden 2001)

David Henderson describes the importance of McFadden’s innovation:

Before McFadden’s work, empirical economists who studied various issues tended to assume that the variables they were studying were continuous. This works well when one studies, say, the demand for sugar, because people buy various amounts of sugar along a continuum. But what if one is studying the demand for refrigerators? Because most people have only one refrigerator, the choice of a refrigerator is a discrete choice. (Henderson 2008)

John Rust (2008) notes that “McFadden developed the econometric methodology for estimating the utility functions underlying probabilistic choice theory.”

McFadden rarely criticizes government intervention and sometimes advocates it. He does not appear to have changed his views over his lifetime. McFadden has signed petitions opposing the George W. Bush tax cuts, in favor of government-oriented healthcare reform, in favor of a financial transaction tax, in favor of liberalizing immigration, in support of John Kerry for president in 2004, and in favor of Federal Reserve independence (Hedengren et al. 2010).

In a 2006 article, McFadden made the following remarks:

Consumers who know their own tastes, and are relentlessly self-interested and self-reliant, relish choice, and welcome market opportunities that expand their options. Most economists accept this concept of the consumer, and the attendant economic theory that

demonstrates the efficiency and Pareto optimality of decentralized, competitive markets. Over the past 30 years in the United States and elsewhere, these market-oriented views have driven economic policy, leading to deregulation of air and truck transportation, telecommunications, and energy markets; establishment of property rights and markets to manage environmental externalities; and globalization of international markets for goods, capital, and services. Notable successes were the deregulation of truck and air transportation, and of telecommunications, where dysfunctional regulation worked at cross-purposes to competition. Another success was making air pollution a property right, allowing Coasian markets to internalize environmental externalities. There have also been striking failures, such as the breakdown of the incompletely deregulated energy market in California a few years ago, the rail transport deregulation in Great Britain which got wrong the incentives for track maintenance, and the British system of private retirement accounts which allowed excessive fees and overselling. However, the sweep of decentralization and privatization is, I believe, widely viewed by economists as an almost universal success, with the failures due to correctable flaws in market design. Romantics of the economic right would carry the concept of self-interested consumers and free markets even further, embracing a withering of authority and a nirvana of Hayekian self-reliance. ...

My concern in this paper is that it is not enough to find ways to handle information and technology issues in privatization if consumers are not up to the task of functioning satisfactorily in such markets. The argument is not that consumers should be coddled; they may need to see the stick to get the incentives for self-reliance right. However, the efficiency and stability of an economy requires that all consumers be part of the franchise, in reality and in perception, so that good economic policies, including privatization and free markets when they make sense, receive broad support. (McFadden 2006, 5-6)

Regarding the 2008 bailouts, McFadden was quoted as saying: “I don’t think it is a great package. ... It is more important that something be done than what is in the package. ... I don’t know about one approach versus the other, but psychologically it is important that something be done” (quoted in Lott 2008).

In 2006, McFadden expressed cautious optimism for Medicare Part D, under which the government subsidizes prescriptions but allows individuals to choose

where to purchase their medication, in his presidential address to the American Economic Association:

The new Medicare Part D prescription drug insurance market illustrates that leaving a large block of uninformed consumers to “sink or swim,” and relying on their self-interest to achieve satisfactory outcomes, can be unrealistic. To make the Part D market work, in the sense that it provides choices that consumers want, and achieves the efficiencies it seeks, CMS [the Center for Medicare and Medicaid Services] will have to make a diligent effort to manage the market, and to reach all consumers and provide them with information and assistance in making wise choices. What the Part D market, and other market privatization initiatives, need is a component of Thaler and Sunstein’s (2003) *libertarian paternalism*, in which understanding consumers’ limitations, helping consumers to help themselves, and convincing them that the market will serve their interests are intrinsic parts of mechanism design. (McFadden 2006, 23, emphasis in original)

By 2007, McFadden considered Part D to have been largely beneficial. He wrote in the *Wall Street Journal* that the program had “succeeded in getting affordable prescription drugs to the senior population,” and that “[i]ts privatized structure has not been a significant impediment to delivery of these services.” But McFadden advised caution in applying privatization elsewhere in health care, stating “the success of Part D depends substantially on thoughtful and muscular management of the market.” Instead, McFadden made three recommendations for health care reform: Reducing inefficiencies of administrative overhead and medical malpractice costs; enacting universal health insurance coverage, particularly focusing on preventative medicine; and matching costs with benefits by placing “treatment choices and financial responsibility on the individual” (McFadden 2007).

Regarding Social Security, McFadden wrote in 2005 that the “system is not in immediate crisis, but it does need adjustments to guarantee its future solvency” (McFadden 2005, 1). He went on to say that the current system can be maintained with simple adjustments to taxes and benefits, or it can be redesigned to “offer a degree of individual choice, encourage savings, and reduce political and demographic risks to the system without destroying its important ‘social safety net’ features of insurance and redistribution that protect the most unfortunate among us” (ibid.). On this latter route, however, he warned against destroying the system: “It will be truly unfortunate if the penchant for aggressive marketing and zeal for

market solutions in the Bush administration result in what one might dub “the Fox News plan to guard the Social Security chickens” (ibid.).

McFadden says that he is increasingly focused on behavioral anomalies.

In recent years, my research has concentrated on the deviations from the economic theory of choice, found particularly in the experiments in cognitive psychology conducted by Danny Kahneman and Amos Tversky, and their implications for economic analysis and the interpretation of economic data. (McFadden 2001)

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# James E. Meade

by Daniel B. Klein, Ryan Daza, and Hannah Mead

James Meade (1907–1995) was born in the UK. Concerns about unemployment inspired him to study economics (Layard and Weale 1995). He received the Nobel in 1977 with Bertil Ohlin for “pathbreaking contribution to the theory of international trade and international capital movements.”

Meade held basically the same views throughout his adult life, though in the course of his life, or even in the course of a paragraph, the tunes sometimes sound multiple and even conflicting. One might criticize him for the way he uses terms such as “free enterprise” or “free market” when he seems to mean private—and possibly regulated and heavily taxed—enterprise.

While at Oxford, from age 19 to 23, Meade was involved in the Fabian socialist movement (Vines 2007, 7; Layard and Weale 1995), and such views retain a presence throughout the rest of his life. According to Harry Johnson, Meade’s “fundamental motivation is a concern for social justice—he is a ‘price-system socialist’ of the 1930s vintage—hence his persistent concern with the application of theory to problems of economic policy, and also his idealized Fabian-socialist conception of the policy-making process and of the role of the economist in it” (Johnson 1978, 66).

In an autobiographical sketch, Meade (1992/1978) wrote: “Like many of my generation I considered the heavy unemployment in the United Kingdom in the inter-war period as both stupid and wicked. ... In the 1930s one was aware of two great evils—mass unemployment and the threat of war. I thought—and I still think—that the government of the United Kingdom could, in those days, have altered the course of world history by listening to Keynes on employment policy and by backing to the hilt the League of Nations for the preservation of peace.”

Meade was dedicated to finding policy solutions to economic issues. UK economists Richard Layard and Martin Weale remembered Meade for his utilitarianism and interest in “the use of economics as a guide to policy” (Layard and Weale 1995). “Meade was an egalitarian, both in his ideas and in his life. He felt that economics should concern itself not only with the size of the cake but with how unequally the cake was distributed. For the sake of greater equality one should be willing to accept some loss of efficiency” (ibid.).

Meade advocated free trade (Layard and Weale 1995; Peterson 2010). He supported income redistribution (Layard and Weale 1995). He was “a believer” in voluntary eugenics efforts (Backhouse 2012, 68). In 1965 and 1966, Meade co-edited two volumes containing reports of the proceedings of a symposium organized by the Eugenics Society in London (Meade and Parkes 1965; 1966).

Meade was open to changing his policy recommendations to achieve his goals, which in broad form did not change. During World War II, Meade effectively drafted the UK government white paper (Minister of Reconstruction 1944) laying forth a policy of full employment (Vines 2007, 13); when the 1970s brought both high unemployment and high inflation, Meade developed a theory of stabilizing total spending growth to address the issue (Layard and Weale 1995; Peterson 2010). He also changed his proposals of how to achieve optimal wages (Layard and Weale 1995; Arndt 1995).

In the 1940s he wrote in support of price-based planning, saying: “If, however, we wish to combine freedom, efficiency and equity in our economic life, we should proceed to make arrangements to see that these fundamental conditions are satisfied”—namely, stable money supply, equal distribution of money, and fair markets (Vines 2007, 35). Meade followed Keynes, whom, according to David Vines, Meade admired for his “passionate desire to devise a better domestic and international society” (ibid., 34).

In general, Meade believed himself an advocate of private enterprise and of government planning. In 1949 he wrote: “Am I a planner? If a planner necessarily believes in a quantitative programme of output, employment and sales for particular industries, occupation and markets and the exercise of such direct controls by the State as are necessary to carry this out, I am certainly no planner. If a anti-planner necessarily denies that the State should so influence the working of the price mechanism that certain major objectives of full employment, stability, equity, freedom and the like are achieved, then I am a planner” (Meade 1949, v).

In *Planning and the Price Mechanism: The Liberal-Socialist Solution*, Meade advocated his “middle way”: “The thesis of this book is that a large measure of state foresight and intervention is required to guide the economy from war to peace, to prevent inflationary and deflationary pressures, to ensure a tolerably equitable distribution of income and property, and to prevent or to control the anti-social rigging of the market by private interests, but that these objectives can be achieved in an efficient and a free society only if an extensive use is made of the mechanisms of competition, free enterprise and the free market determination of prices and output” (Meade 1949, v-vi, 11).

Meade carried his “liberal-socialist” ideology throughout his professional career, promoting policies that seem to entail both intervention and *laissez-faire*. In 1964, Meade gave lectures outlining the efficiency of prices in competitive markets but was quick to note that he is not advocating *laissez-faire* policies. He says: “My present point is simply that even when the State is doing all that it should to make the system work efficiently, it will still be necessary to use the price mechanism as a guide to efficiency. In a modern complex economy the State must set the background of institutions and policies which will enable the system to harmonize

social and private interests” (Meade 1964, 12-13). Meade offers solutions to the “Brave New Capitalists’ Paradise” through modes of a “Social Ownership of Property” that combines market efficiency with distributional justice (Meade 1964, 34, 66).

In 1975, almost 30 years after writing *Planning and the Price Mechanism*, Meade commented: “Much has happened since then and I have learned much, though my basic economic philosophy remained unchanged” (Meade 1975a, 9). While he changed policy prescriptions, Meade continued to advocate a mixed economy. Again he seems to advocate a system of free enterprise: “A basic reform which the intelligent radical will support is the restoration and development of the free market mechanism wherever possible to ensure workable competitive condition” (ibid., 13). He advocates removing all unnecessary market restrictions, but backs a “superstructure of governmental interventions and controls” that are necessary to “set a background of conditions in which free competition can work effectively” (ibid., 14).

Meade (1975a) felt that “the swing of opinion from nineteenth century doctrines of *laissez faire* has gone so far as to obscure the advantages of a free market mechanism” (16). He ruminates: “Perhaps Plato was correct after all. We need benevolent guardians to tell us what goods to purchase... The intelligent radical recognises this case, but repeats the age-old question: Who will guard the guardians? If one wanders too far down the socialist path freedom disappears, the costs of bureaucratic controls mount, and among the innumerable guardians will be found many fools and knaves. The end result of the authoritarian society is as horrible as the end result of uncontrolled *laissez-faire*. The intelligent radical seeks for some intermediate position in which the maximum possible use is made of the market price mechanism, as the foundation on which a structure of essential social controls is built” (Meade 1975a, 122-123).

Meade sustains his mixture of liberal sentiment and interventionism across four items written for the Institute of Economic Affairs, the classical liberal think tank in London (Meade 1962; 1971; 1975b; 1985). These contributions show Meade’s earnestness in trying to salvage liberal, market-oriented overtones while, in fact, going quite against bona fide classical liberal, free-market principles.<sup>39</sup>

In 1981, Meade was among the 364 economists who signed a petition against the anti-inflation macroeconomic policy of the Thatcher government (Wood 2006; Booth 2006, 383).

Meade (1989, 1) claimed to have visited an island that made use of middle-way institutions, declaring it “a Good Place” preferable to a nonexistent utopia. His

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39. Meade’s IEA papers are summarized in Seldon (1985), which also contains extensive—yet polite—criticism of Meade (1985).

tale of *Agathotopia: The Economics of Partnership* is “Addressed to All Capitalists and Socialists who Seek to Make the Best of Both Worlds” (ibid., iii).

Driven by his ideals, Meade continually sought policies that could make the world better. In Heinz Arndt’s words: “Throughout his long professional career, Meade never lost his passionate interest in the issues that had occupied the Cambridge ‘Circus’—full employment and social welfare and the policies that would promote these objectives” (Arndt 1995, 99).

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## Robert C. Merton

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Robert C. Merton (1944–) grew up in Hastings-on-Hudson, New York, where baseball and cars, not school, were his primary interests (Merton 1998). His father, Robert K. Merton, was an eminent sociologist teaching at Columbia University; the younger Merton earned his B.S. there in engineering mathematics. He then moved to the California Institute of Technology for his M.S. in applied mathematics. After his master's, he was drawn to economics. He says he believed macroeconomics had been effective in controlling unemployment and inflation, and he “felt that working in economics could ‘really matter’ and that potentially one could affect millions of people” (Merton 1998). Merton is very reserved in policy discourse and holds a middle ground, recognizing the potential for both market and political failures.

Knowing his mathematical and engineering background would help him in economic analysis, Merton also felt he had strong economic intuition, particularly regarding the stock market (Merton 1998). Merton pursued his Ph.D. at MIT, where he began working with Paul Samuelson, whom he considers his mentor (Merton 2005). After earning his Ph.D. Merton stayed at MIT for nearly two decades before moving to the Harvard Business School.

While at Cal Tech, Merton had learned firsthand about the stock market. “[M]any mornings I would get to a local brokerage house at 6:30 am (9:30 am in New York) for the opening of the stock market, spend a couple of hours watching

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the tape and trading, and then go to my classes” (Merton 1998). Merton’s stock market experience led to his collaboration with Samuelson:

In the course of my work for Paul, we discovered shared interests and some common knowledge about the stock market, warrants and convertible securities. I found out that my “after/before-hours” interest in such things could also be a legitimate part of my day-hours devoted to research. (Merton 1998)

Samuelson and Merton (1969) wrote a paper on warrant pricing, which would lead to Merton’s “massive contributions to ‘the option-pricing formula’ and to dynamic investment theory, which followed almost immediately” (Duffie 2008). Darrell Duffie writes, “Within a few years of his arrival at MIT in 1967, it is no exaggeration to say that Merton had transformed his newly chosen field of financial economics and, more broadly, dynamic modelling in economics” (Duffie 2008).

This work won him the Nobel Prize in 1997, shared with Myron Scholes:

Robert C. Merton and Myron S. Scholes have, in collaboration with the late Fischer Black, developed a pioneering formula for the valuation of stock options. . . . Robert Merton devised another method to derive the [Black-Scholes] formula that turned out to have very wide applicability; he also generalized the formula in many directions. (Royal Swedish Academy of Sciences 1997)

Merton says that his early research focused “on developing dynamic models of optimal lifetime consumption and portfolio selection, equilibrium asset pricing, and contingent-claim pricing,” then he worked on applying these models, and finally, he branched into studying institutions: “In particular, I am studying the role of financial technology and innovation in driving changes in financial institution and market design, the management of financial-service firms, and the regulatory and the accounting systems” (Merton 1998).

On regulation, Merton both sees a need for some government intervention and is cautious about certain uses of that power. An essay that Merton coauthored with Zvi Bodie contains the statement that “Successful public policy depends importantly on recognizing the limits of what government can do to improve efficiency and on recognizing when government *inaction* is the best choice” (Merton and Bodie 1995, 266). The essay continues:

Government regulatory actions can do much to either mitigate or aggravate the dysfunctional aspects of financial innovations. By analogy again, hurricanes are inevitable, but government policy can

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either reduce their devastation by encouraging early warning systems or it can aggravate the damage by encouraging the building of housing in locations that are especially vulnerable to such storms. Similarly, well-intentioned government policies aimed at reducing the systemic risks of a crisis in the global financial system may have the unintended and perverse consequence of actually increasing the risk of such a crisis. (Merton and Bodie 1995, 266)

Merton wrote in favor of regulation that “sometimes unanticipated and unintended consequences of government actions can indeed be positive” (Merton 1995, 479). He supports what he calls “functional regulation” over “institutional regulation,” functional regulation being that in which regulators take the functions as given and seek to improve the institutions, rather than the other way around. “Functional regulation promises more consistent treatment for all providers of functionally equivalent products or services and thereby reduces the opportunities for rent-seeking the regulatory capture” (Merton and Bodie 1995, 269).

Following the 2008 financial crisis, Merton advocated a national financial oversight board:

And so one of the big things that will come out of the crisis on this is education, and training, and the need for people to understand these models and their applications who are in positions of oversight. One suggestion, which I think is an actual good one that can be done along these lines, is to create something that’s akin to the National Transportation Safety Board. But instead of for—that’s for airplanes and trains—this would be for the financial system. In which, whenever there’s a failure in the financial system, failure of a single bank, failure of a hedge fund, failure of a brokerage house—a forensic team, highly trained, comes in and examines what happened and as with air crashes, reassembles or determines what were the causes of the failure. (Merton 2010, 3)

In the same interview, Merton acknowledged the potential flaws of regulation and called for better, not necessarily more, regulation:

And the difficulty is, is that regulators like the rest of the industry, are human beings. They have limited resources and limited knowledge. . . . That said, we certainly need to have revisions and improvements to the regulatory practices. Certainly they did fail in a number of places. I’m not so clear that the answer is to have more regulations passed, or very wide sweeping ones, but rather to take existing ones to make rather

targeted improvements and make sure that the regulators have...the resources, including the right people to perform their functions. (Merton 2010, 5)

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## Merton H. Miller

by Daniel B. Klein, Ryan Daza, and Hannah Mead<sup>40</sup>

Born in Boston, Merton Miller (1923–2000) received his undergraduate degree in economics from Harvard in 1944. He worked at the U.S. Treasury's

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40. We thank Sam Peltzman for his help on this profile.

Division of Tax Research between 1943 and 1947 and Federal Reserve's Division of Research and Statistics between 1947 and 1949 before deciding to get his Ph.D. He opted to go to Johns Hopkins University, drawn by the opportunity to learn under Fritz Machlup. After earning his doctorate in 1952, he taught at the London School of Economics, Carnegie Institute of Technology, and, from 1961 until his retirement in 1993, the University of Chicago's Graduate School of Business (Miller 1991).

In 1990, Miller, along with Harry Markowitz and William Sharpe, received the Nobel Memorial Prize in Economic Science for their work in the theory of financial economics. The Royal Swedish Academy of Sciences noted Miller for his contributions to the theory of corporate finance. Miller's name is well-known for the Modigliani-Miller theorem, which shows that under certain assumptions the value of a firm would be independent of its ratio of debt to equity (Modigliani and Miller 1958; 1963).

In his Nobel autobiography, Miller stated, "I continue to be an activist supporter of free-market solutions to economic problems" (Miller 1991). Miller signed two petitions that David Hedengren and coauthors (2010) consider "liberty-augmenting" and none they consider as reducing liberty. Also, in 1999, Miller and 73 other scientists, 67 of them Nobel laureates, signed a letter in support of National Institutes of Health director Harold Varmus's decision to allow funding of stem cell research (Lanza 1999, 1849).

When a former student criticized Miller for twisting the facts, Miller responded: "I've seen the government firsthand.... And most of what passes for regulation is just protectionism.... [W]hen I do the calculation, the costs of regulation often far exceed the benefits" (quoted in Barboza 1999).

In researching this profile, we have not been able to learn much about Miller's ideological outlook in his early adult years. At age 24, he published an article with Richard A. Musgrave entitled "Built-in Flexibility," offering a mainstream Keynesian analysis (Musgrave and Miller 1948). Miller's famous paper with Modigliani—a social-democratic Keynesian—was published in 1958, and the two subsequently coauthored several other items together. Perhaps these earlier papers indicate that Miller's strong free-market views did not come until some later time, such after 1961, when he came to Chicago.

In a 1978 paper written with Richard Posner and Fischer Black, Miller stated: "A rapidly growing literature on the economic characteristics and effects of government regulation of business is strikingly negative in its conclusions: Careful evaluations of the regulatory process reveal, time and again, substantial failure to carry out the intended (or ostensible) purposes of the regulatory program at reasonable cost." The authors continued, "the lesson of history is that there can be no assurance that the costs, methods, and extent of federal bank regulation for

the protection of creditors are optimal. Indeed, there is evidence that regulation has gone further in protecting creditors than is efficient, resulting in the imposition of considerable (and avoidable) social costs. We do not, however, argue that all bank regulation is bad. A striking and heartening development in banking regulation in the last decade has been a movement away from exclusive preoccupation with bank-asset safety and towards greater awareness of the benefits of competition” (Black et al. 1978, 381, 383).

Miller cited Machlup and George Stigler as the two economists who influenced him most (Overtveldt 2008, 264). Work by Stigler and Sam Peltzman encouraged Miller to study financial regulation while at Chicago. In his research, Miller found evidence that financial innovation is the result of efforts to skirt regulations (ibid., 268).

In a roundtable discussion with Richard Epstein, Gary Becker, Ronald Coase, and Richard Posner, Miller said the financial industry is over-litigated:

Securities crime looms so large because our Securities and Exchange Commission was set up initially on the utterly false premise that the crash of 1929 and all the subsequent ills of the economy and the banking industry can be traced to some kind of criminal conspiracy in Wall Street during the 1920s. That false premise pervades not only the whole structure of the financial regulatory system, but even pervades the personality of the Commission itself, which is one of the most lawyer-dominated, lawyer-run agencies in the whole government. (in Epstein et al. 1997, 1142)

Discussing regulation of derivatives, Miller spoke against increasing regulation, saying of the Commodity Futures Trading Commission, “In any rational universe, they would have blown that agency up many years ago” (quoted in Barboza 1999). In his 1997 book *On Derivatives*, Miller wrote: “Derivatives *always* have two sides, a long and a short. And, at all times, the positions cancel. The gains and losses thus simply represent what economists call pure transfers of wealth between the parties, not changes in aggregate social wealth” (Miller 1997, 16).

Miller believed economic crises were principally due to government action:

But crashes in financial markets are not exogenous calamities like earthquakes. They are *policy* disasters, tracing not to transactions between *private-sector* parties, but to the deliberately deflationary actions of a central bank somewhere, usually overreacting to its previous policy errors in the other direction. (Miller 1997, 68)

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Miller did advocate restrictions on governments' trading of derivatives, saying public-sector investors are often more skilled in politics than in finance (Fridson 1998, 101). Miller also advocated "functional regulation":

The Sandner plan [to reorganize U.S. financial regulation along functional rather than departmental lines], though conceived originally with the special problems of the futures exchanges in mind, is typical of a wider class of proposals for reducing the current dead-weight costs of regulation and regulatory compliance in the U.S. by redrawing regulatory jurisdictions along more logical functional lines. But benefits promised to the taxpaying public from such restructurings cannot, by themselves, assure enactment. Consolidations of long-established regulatory agencies will be resisted by at least two key stakeholders in the affected regulatory enterprises, the regulators and their Congressional overseers. And who can blame them, since they face the loss of significant "property rights" (in the form of career rents, perks and political leverage). Admittedly, restructurings of comparable scope are routinely observed these days for private-sector enterprises. But the stakes in those firms are typically represented by securities, which can be freely bought or sold; and even while not, buyout deals for cash can normally be made. The efficiency gains from reorganizations or restructurings can then provide the means for inducing the losers to abandon their opposition. The restructuring of regulatory enterprises, however, generates no such pool of transferable resources—nothing, alas, that can be used to compensate the regulators and Congressional overseers displaced.

Clearly, then, if we were looking for a single word to epitomize U.S. regulation in the future, it won't be Functional. How about Dysfunctional? (Miller 1994, 105)

In a 1993 article, Miller criticized interventions in Japan's financial markets:

The Japanese government, in the form of MOF [Japan's Ministry of Finance] bureaucrats, had not only long since enlisted on the side of the stock brokers but had actually become their shock troops. . . . MOF is, unashamedly, the managing director of the domestic stock brokerage cartel in Japan. And I use the term cartel deliberately, in its standard economic sense of a scheme to enhance the profits of its member firms by fixing prices. . . . (Miller 1993, 6)

While MOF had later relaxed many of its rules on trading, Miller believed in larger institutional change, writing “if the U.S. experience is any guide, the long-run benefits of having financial institutions disciplined by competition rather than by administrative guidance will...be substantial both for investors managing wealth and for firms raising capital. And for Japan, it will mean, at long last, financial markets that may someday hope to match that country’s already substantial achievements in culture and technology” (Miller 1993, 11).

On the Ministry of Finance and MOF-type financial regulatory agencies in general, Miller writes:

Regulatory structures often linger on, doing business in the same old way, long after the disappearance of the landscape that gave rise to them initially. A classic example, of course, is the U.S. Rural Electrification Administration created in the 1930’s when less than 10 percent of U.S. farms had electrical service, but still running strong in the 1990’s when less than 10 percent of U.S. farms *don’t* have electricity. ...

As a practical matter, a major crisis or scandal of some kind must occur—the analog of a bankruptcy filing by a private firm—before obsolete, and even counterproductive, regulatory arrangements can actually be restructured. A conspicuous crisis may be necessary for major regulatory changes, but is surely not sufficient, as the case of MOF makes plain. The scandals and failures occurring almost daily in MOF-regulated markets would long since have discredited the regulatory regime in any country but Japan.

Some may think I’m being unduly harsh on MOF. After all, MOF has maintained a tight rein on government spending (except perhaps for the huge construction contracts directed to its political patrons). And, just look at the tremendous success of the Japanese economy under MOF’s stewardship. But to credit MOF with that success is to confuse association with causality—a fallacy so ancient it even has a Latin name, *post hoc, ergo propter hoc*. A compelling case can be made, in fact, for the counter proposition that the Japanese economy has succeeded *despite* policies of MOF that have spread waste, corruption and inefficiencies throughout Japan’s capital markets (and driven much capital market activity abroad). The real credit for Japan’s economic success belongs not to its bureaucrats but to its people—to their talent, their energy, their work-ethic and not least their willingness to save. ...

That political change usually precedes major regulatory change is well illustrated by the U.S. experience. Much of the current regulatory structure of the U.S. traces to the early and middle 1930's when a crusading Roosevelt Administration under the slogan of a New Deal for America, overhauled and greatly expanded government regulation in virtually every area of economic life, not least in financial markets and banking. The stock market collapse of 1929 and the banking collapse of 1930–32 had completely discredited the existing vested interests in those industries and left them politically powerless. (Miller 1994, 97-98)

Speaking about Michael Milken, who was imprisoned for two years for securities fraud, Miller said Milken was a “victim of prosecutorial excess” and government intervention in an efficient market (quoted in Barboza 1999). Summarizing his view of financial prosecution, Miller said:

[C]riminal lawyers don't understand the impersonal market forces that are at work in the capital markets and they bog down in all sorts of surface clichés about “fairness” and “level playing fields” and “equal access to information.” (in Epstein et al. 1997, 1142)

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## James A. Mirrlees

by Daniel B. Klein, Ryan Daza, and Hannah Mead

James Mirrlees (1936–) was born in Minnigaff, Scotland. His interest and progress in mathematics led him to a mathematics degree at Edinburgh University. He was awarded a grant to pursue another undergraduate degree, Part II of the Cambridge Mathematics Tripos at Trinity College in 1957. By the time he completed Part III with distinction, making him eligible for research in mathematics, he realized he wanted to pursue economics “because poverty in what were then called the underdeveloped countries, seemed to me what really mattered in the world” (Mirrlees 1997a).

During his time at Cambridge, Mirrlees was a member of the Labour Club (Mirrlees 2009); he later advised the Labour Party. In 1962, in his mid-twenties, Mirrlees co-authored a paper with Nicholas Kaldor, titled “A New Model for Economic Growth,” that presented a Keynesian point of view (Kaldor and Mirrlees 1962).

Professor Mirrlees (2013) generously responded to our questionnaire, and the response is provided at the end of this profile. He says that at age of 25 he “thought that planning and State ownership were to be recommended,” and then indicates that by age 35 he moved to a more regulation-oriented view.

Mirrlees taught at Trinity College, Cambridge, and in 1968 moved to Nuffield College, Oxford. There he remained until returning to Cambridge in 1995.

In 1996, he was awarded the Nobel Prize, shared with William Vickrey, “for their fundamental contributions to the economic theory of incentives under asymmetric information.”

Drawing on his mathematical background, Mirrlees created a model for solving the problem of optimal taxation. His work yielded at least one surprising result: “I must confess that I had expected the rigorous analysis of income-taxation in the utilitarian manner to provide arguments for high tax rates. It has not done so” (Mirrlees 1971, 207).

Recognizing that incentives matter, Mirrlees did not take a naïve view of redistribution:

People might have some doubts about the measurability, perhaps even about the meaningfulness, of utility; but at least in a rough and ready way, there was a strong case for thinking that transfer from richer to poorer was an improvement. Carrying that to the logical extreme, the riches of the earth should be equally distributed.

It was not a popular policy, in part for good reasons. Obviously if a perfectly equalising policy were carried out, the ordinary incentive to work would be eliminated. “From each according to his abilities, to each according to his needs” (Karl Marx, *Criticism of the Gotha Programme*) is not thought to be feasible, even if desirable. Nothing in the simple model allowed for that. (Mirrlees 1997b, 1313)

In an interview, Mirrlees brought up an argument he had heard, that since tax money goes to good programs, people ought to be happy to pay taxes. He said:

I wish that people felt like that about taxes. But of course the work I’ve done has mainly been recognising that people do not feel like that about taxes and that it apparently even got to the point of discouraging quite a lot of people from earning as much as they might have, which in particular I mean they no longer pay as many taxes as they should. I suppose that I’m forced to see that high tax rates do induce quite a lot of people to find ways of avoiding them, or evading them. (Mirrlees 2004)

Still, he isn’t as concerned about high tax rates as some. Speaking of Europeans, he said: “I suppose I don’t quite understand why they don’t think they’re getting a lot of it back, because actually a lot of the benefits do accrue to the better off as well” (Mirrlees 2004).

Summarizing his view on taxation, Mirrlees said:

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So I think that's what it's about. It's about ensuring that the things that are needed for everybody, certain basic things which cannot be conveniently left to people to buy for themselves, should be available for everyone, but they are mainly going to have to be paid for by the better off. (Mirrlees 2004)

Mirrlees recognized the limits of taxation, but redistribution continued to be a goal. He has spoken positively about Britain's experience in the 1950s: "first inequality was reduced, as they had a tax system since 1945 that paid for the Welfare State. This was clearly very effective" (Mirrlees 2011). He continues:

There was a considerable improvement, but then there was a period when inequality increased again, essentially under Mrs. Thatcher's Conservative government. But then when the Labour government came in, they introduced another redistributive element to the tax system called tax credits, which are paid subsidies to people depending on their income. This applied to a lot of people and inequality fell. So these systems really do work. It would be very surprising if they didn't. Studies throughout Europe have shown that countries with higher tax rates have lower inequality. (Mirrlees 2011)

Mirrlees always maintained his first economic interest was to improve the welfare of the developing world. Of his interest in studying development, he said: "I don't think that was so much about narrowing the gap as about increasing their incomes, which means economic growth, which is really my prime interest" (Mirrlees 2004).

When Mirrlees was completing his thesis, he went to India on a trip arranged for him by Amartya Sen (Mirrlees 1997a). Mirrlees spoke about that visit in a recent interview:

[Mirrlees:] In that time I pretty much decided that taking a very command-planning view was quite the wrong way to be running an economy.

[interviewer:] Was this in reaction...this was the time that the Indian government were doing five-year plans and so on.

[Mirrlees:] Yes, that's right.

[interviewer:] So in reaction to that, you were...

[Mirrlees:] Reaction to the bad results of them trying to do it. There are quite a number of examples, which...economists have already drawn attention to. Taking quite the wrong decisions.

[interviewer:] What date was this?

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[Mirrlees:] I was there '62 to '63.

[interviewer:] ... Were you aware at all of the disasters of planning in China?

[Mirrlees:] No. No, on the contrary. I think perhaps I probably heard Joan Robinson talk about China too much, and she believed that it was going great—that it was more or less the perfect economy. ... During that time I was in India she passed through. ... I remember us going around some fields and a village in India, and she was talking about how *very well organized* the Chinese were, *very efficient*, and when you told them to do something they did it, as compared to these Indians, who were feckless...going nowhere. Fair enough about India—a lot of fecklessness. But in India I certainly experienced the business of being taken to some villages which were showpieces. However, it being India, the next day I'd be taken to a village that was the complete opposite. There's a wonderful honesty about India, which shows up in things like their poverty data. (Mirrlees 2009, 50:55–53:45)

In *Project Appraisal and Planning for Developing Countries* (1974), Mirrlees and Ian Little spoke about profits, prices, and government action:

It is a tenet of laissez-faire capitalism that profits measure the gain which society derives from a project. The acceptance of this view seems to permit capitalists to claim the moral plaudits of society as they line their pockets. Yet it cannot be dismissed as intolerable hypocrisy, for the theory that profits measure social (and not merely private) gains has no necessary connection with capitalism at all. Indeed, many would think the theory more valid for a socialist society; and it is generally recognized that profits have an important, even essential, role to play in a socialist society. (Little and Mirrlees 1974, 18)

We saw...that there is, in fact, reason to believe that prices are very distorted in many developing countries. Some of the worst distortions have arisen as a result of government policies and bad investment planning. It is ironical that, in the past, planning was advocated for developing countries largely because the prices thrown up by a laissez-faire system could not be trusted to reflect national costs and benefits; but it has been used in such a way as to make the distortions worse. (ibid., 67)

A government is no exception to the rule that every agent of rational intent must plan his expenditure. This is not to say that investment expenditure, with which we are primarily concerned, need be centrally planned. A lot can be delegated to departments, municipalities, and public companies. But large projects must be centrally scrutinized, decided upon, and fitted into an investment programme, if government planning is to have any meaning. (ibid., 83-84)

In 2010, Mirrlees led a study on tax reform that concluded the British tax system was in need of “radical changes.” A press release issued by the study’s sponsor concluded:

The review shows that the UK system falls short of the ideal in costly and inequitable ways. It discourages saving and investment, and distorts the form they take. It favours corporate debt over equity finance. It fails to deal effectively with either greenhouse gas emissions or road congestion. The revenue it raises, and the redistribution it does, could be achieved in less costly ways. (Institute for Fiscal Studies 2010)

Mirrlees said that he and his collaborators “propose both a long-term vision of a better system, and directions for reform. Some of the recommended reforms involve tweaks to current policy; others involve radical change, and are probably for the longer term. It is undeniable that some of the proposed changes would be politically difficult. But failure to reform imposes enduring costs” (quoted in Institute for Fiscal Studies 2010).

Professor Mirrlees kindly responded to our questionnaire:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My parents were Scottish presbyterian, and politically conservative. At 18 I was a Christian, already somewhat egalitarian and, as far as I remember, beginning to understand and agree with utilitarianism.

*2. How about at age 25 or so? Had they changed at all by then?*

At 25, I was still a (protestant) Christian; philosophically utilitarian, or, I would rather call it, welfarean, in the sense that utility is to be a measure of welfare, not necessarily preference revealed by behaviour; politically a social democrat, a labour voter. At that time, I thought that planning and State ownership were to be recommended.

I certainly did not think that was an ideology: it appeared to be an application of fundamental values.

3. *And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

At 35 no longer Christian, atheist rather. Not that that has much to do with values, which were much the same. Conclusions about what should be done had changed, as a result to analysing economic models, which, at that time, seemed to have shown that redistribution should be less than I had thought earlier. I had also found that detailed full economic planning was not the best way to run an economy.

4. *And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

Evidence is showing that taxation as progressive as in Scandinavia is pretty good—more redistribution than I thought 40 years ago. And I can see that, largely for political reasons, many of the free-market economies are doing a poor job of avoiding unemployment and low median-consumption. I favour a highly taxed, highly regulated economy, but not an autocratic State. I suppose that makes me a pretty standard-model old-fashioned liberal (in the American sense). It's implied by fundamental values and empirical observation, not, I suggest, an ideology acquired by infection from friends, gurus or preachers. Certainly my policy beliefs can still change. (Mirrlees 2013)

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## Franco Modigliani

by Daniel B. Klein and Ryan Daza

Franco Modigliani (1918–2003) was awarded the Nobel Prize in 1985 for his analyses of saving and financial markets. His two most illustrious contributions are his life-cycle theory of savings (Modigliani 1949) and the Modigliani-Miller theorem, which shows that under certain assumptions the value of a firm would be independent of its ratio of debt to equity (Modigliani and Miller 1958; 1963). His professional accomplishments were prodigious and are nicely treated by Richard Sutch (2008) in *The New Palgrave Dictionary of Economics*.

As for Modigliani’s ideological character, Sutch (2008) describes Modigliani as a “life-long Keynesian.” And if one were to review only Modigliani’s English-language writings, beginning with “Liquidity Preference and the Theory of Interest and Money” (1944) and proceeding to “The Keynesian Gospel According to Modigliani” (2003), including his autobiographical book (Modigliani 2001) and essays and interviews (e.g., Modigliani 1984; 1986; 1995), one indeed would see an oeuvre befitting a mainstream social-democratic Keynesian economist.

What is often missed—and, frankly, it would seem deliberately misrepresented in his own autobiographical works—is that in Italy, Modigliani, by age 20, was a well published fascist wunderkind, having received in 1936 an award for economics writing from the hand of Benito Mussolini himself. Further, in 1947, at age 29, Modigliani published a 75-page article whose title in English translation would be “The Organization and Direction of Production in a Socialist Economy” (Modigliani 1947), an article that affirms socialist economics. In 2004 and 2005 there appeared English translations of five fascist works by Modigliani originally published during 1937 and 1938 (all five translations are collected by Daniela Parisi in Modigliani 2007b). The socialist paper of 1947 has never been translated in its

entirety, though the [Appendix](#) to this profile contains excerpts selected and newly translated by Viviana Di Giovinazzo, to whom we are very grateful.

Until recent years, then, these Italian works by Modigliani had been largely overlooked (by, for example, Kouri 1986; Merton 1987; Uchitelle 2003; Ramrattan and Szenberg 2004). Even some items published years after the appearance of the English translations of the fascist articles, items including Sutch (2008) and an intellectual biography of Modigliani by Michael Szenberg and Lall Ramrattan (2008), make mention of neither the 1937–1938 fascist writings nor of the 1947 socialist work. A “List of Life-Time Contributions of Franco Modigliani” in a volume edited by Karigirappa Puttaswamaiah (2009, 85-111) has the 1947 socialist paper but not the earlier fascist papers; in a critical essay from that volume, Andrea Micocci (2009, 48, 49, 53) makes veiled allusions to Modigliani’s early involvement in fascism.

A movement such as Modigliani’s from fascism or socialism to a more mainstream social-democratic Keynesianism represents a significant change in ideological outlook.

Franco Modigliani was born in Rome to a family of Jewish heritage. His mother was a voluntary social worker and his father a prominent pediatrician. He entered college at the age of seventeen. In his memoirs, *Adventures of an Economist*, Modigliani writes:

My mother and Fräulein Pabst had taught me a little German, and I was asked to translate some articles from German into Italian by the Traders’ Federation. In this way I made acquaintance with the economic problems dealt with in German publications: At that time, price control was the fashionable topic. (Modigliani 2001, 9)

In Italy at the time, interuniversity written competitive examinations—the *Littoriali della Cultura*—were under way. These competitions comprised a variety of scientific, literary, and artistic subjects—including economics, which was actually somewhat neglected in the universities. Though the competitions were organized by the regime, the cream of antifascist youth took part in them and scored very highly. That year’s economic subject was the price controls that had been imposed in Italy in 1935... After translating at least a score or so of articles on the matter, I felt sufficiently expert to enter the competition... To my astonishment, my essay scored the highest. The examiners intimated that I evidently had a certain bent toward economics. And I said to myself: Why not? From that moment, I began to think of myself as a potential economist. All this took place in

1936... In actual fact, what was taught was the theory and institutions of the so-called “Corporative State,” which had nothing to do with modern economic theory... I was awarded the *Diploma di Littore* at Palazzo Venezia by Mussolini in person, who shook my hand and presented me with a little gold badge with “M” for Mussolini that I still preserve (out of historical significance, not love). ... The competition entailed, immediately afterward, a trip to Palermo, where the winners were to meet, they being *ex officio* the secretaries of the commission for the following year. (ibid., 9-11)

Modigliani writes that he was gaining contact with antifascists, saying: “When I disembarked at Palermo my antifascism was no longer in doubt” (Modigliani 2001, 11; see also Modigliani 1984, 115; 1986). He says that all this took place in 1936. Yet of the five fascist articles, three are originally from 1937 and two are from January 1938. Daniela Parisi (2005, 555) notes that Modigliani graduated from the Faculty of Law at the University of Rome on July 22, 1939; Parisi says that in the five 1937–1938 articles Modigliani “had already dealt with some issues discussed in his final dissertation,” and that the dissertation was supervised by Professor Guglielmo Masci. In his autobiographical writings, Modigliani (1986; 1995; 2001) never mentions Masci, who favored corporatist economics (see Marget 1935, 561; Rothschild 2004, 258).

Historian Gene Bernardini (1977, 431) writes: “the Italian Fascist government unveiled its policy of racial anti-Semitism in 1938.” In his 2001 autobiography, Modigliani wrote, “we were surprised by the publication of the race laws that were to degrade the life of any Italian Jew who wished to remain in Italy. It was no longer possible for Jews to attend public schools or to hold public office, including university teaching” (Modigliani 2001, 13; see also 1995, 142).

So, unless we are to think that Modigliani was under ‘deep cover,’ falsifying his beliefs as he propounded fascist economics, throughout 1937, at least, at length in print, we must conclude that Modigliani, besides hiding his fascist past, back-dated his antifascism. Aside from Modigliani’s autobiographical testimony, all of the evidence suggests that it was the racial laws enacted in the autumn of 1938 that brought a sudden end to the fascist career of the 20-year-old of Jewish descent.

Whatever one might think of the actions of Modigliani from 1936 through 1938, these being the actions of a teenager in the tumult of Fascist Italy, it is understandable that when he moved to France and then the United States in 1939 (see Szenberg and Ramrattan 2008, 5-8), he would hide his fascist past, and then go on hiding it. In some respects, the providing of information in his 2001 autobiography, from which we quoted above, can be seen as a partial owning up.

The five articles of 1937–1938, as discussed briefly by Daniela Parisi (2005; 2007), vary in length and repeat material. They are now published in English translation, but, as they are not easily accessible, below we quote from four of them extensively.<sup>41</sup>

Excerpts from “General Concepts on Price Control” (Modigliani 2005a/1937):

How could one possibly believe that Fascism, which aims to coordinate individual interests and subordinate them to the national interest in every field and most specifically in the economic field, would leave a function of such elevated importance as that of price setting completely at the mercy of individual interests? ... [W]herever a price has been fixed not in such a way as to assure the maximum benefit of the collectivity combined with that of the individual, but only the advantage of the individual and the exploitation of the collectivity, then the State has not only the right but also the duty to intervene.

In conclusion, then, the intervention of the State in price formation and its action of control are not measures of a contingent nature but rather principles that are fundamental for the Fascist State. (Modigliani 2005a/1937, 563)

[T]he Fascist approach is expressed as incessant dynamism embodied in the formula of the *Revolution on the march*. By contrast, in order for control to be useful what must be ensured is not “anchoring” but instead “organic price formation”. This concept of “organic formation”, which must be the basis of price disciplining, is a very wide-ranging concept that includes many other conceptual frames and deserves careful attention. In a more elementary sense, control is organic, first and foremost, when it is applied in a complete manner, that is to say, when it follows and controls the development of prices of the greatest possible number of commodities, as well as in all the transitional stages that such commodities pass through from production to consumption. (ibid., 564)

Secondly, price control is organic when it is “constructive”, that is, when it does not simply involve taking note of a state of affairs that is to be maintained, but seeks instead, through continuous evolution, to

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41. The fifth is Modigliani (2005d/1938).

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“construct”, to “form” the situation that is deemed best suited to the current movement. (ibid., 564)

It should however be borne in mind that at this point in time, and especially in connection with the contingent facts that led to the re-organization of the price control system as described earlier, price control sets itself not only the general aims laid out in Fascist doctrine but also a specific aim, which calls particular attention. This aim is the maintenance of the domestic value of the Lira. That is to say, the aim is to make sure that the alignment carried out to facilitate Italian exportation does not have any effect from the domestic point of view, so that a pointless, unfair and harmful redistribution of wealth can be avoided. (ibid., 565)

Excerpts from “Political Price and Corporative Price” (Modigliani 2005b/1937):

In contrast to the rigid fatalistic conception of so-called classical economy, corporative economics proposes a strongly voluntaristic conception. General equilibrium does not “take shape”: rather, it must be constructed and shaped. The balance between supply and demand and the price level that expresses this balance does not exist outside of man himself but it *can* and *must* be created by the will of man. (Modigliani 2005b/1937, 570)

[Corporative price control] is a logical consequence of logical principles; not an isolated intervention, but the crowning result of a system of interventions; not an external action designed to impose a different price compared to that indefinable entity that is the market price, but a quintessentially internal action, eminently self-regulating, which aims—through direct cooperation with the categories involved that operate first and foremost in the framework of the Corporation, and then in the Provincial Council of the Corporation—to influence not just the price but also, insofar as is possible, the quantities supplied and even the demand for such quantities. (ibid., 570-571)

But now that control has passed into the hands of the Corporations... price control will cease to be...a source of imbalances, and will become a source of greater justice and collective wellbeing. (ibid., 571)

Excerpts from “The Role of the Party in Controlling Prices” (Modigliani 2007a/1937):

This is the course of action that liberal Governments have always followed by adopting non-intervention as a dogma, which, in this as in many other cases, results in the exploitation of the weak by the strong. But the Fascist regime, whose avowed goal is the advent “of a higher social justice”, could certainly not accept this approach simply because it was the easier solution. (Modigliani 2007a/1937, 31-32)

It is precisely at this point that the specific task entrusted at this time to the Party—the contingent tasks of price control—becomes clear. For if, as we have seen, sacrifices are required in order to protect the value of the lira, in the Nation’s interest, then it will be the duty of the Party to ensure that these sacrifices are borne equally, or in other words to guarantee what we could term distributive justice. (ibid., 32)

Excerpts from “The Crisis of Capitalistic Economic System: The International Division of Labor” (Modigliani 2005c/1938):

This study thus aims to assess the economic value (in the technical sense) of autarky and to demonstrate that the autarkic principle is the *new economic principle* that is called upon to regulate international exchange, replacing the unenforced and unenforceable principle of the *international division of labor*. (Modigliani 2005c/1938, 573)

[W]hat we associate with the term “classical political economy” is that complex of schools which start out from the individualistic viewpoint: that is to say, schools that not only assume as their model a man who pursues no other end than an economic end (*homo oeconomicus*) but a man who, moreover, is an end in his own right. Such a man lives for none other than himself and views himself as the first and last end of every action; he is an individual for whom the community holds no meaning whatsoever and who himself has no meaning for the community. In short, an individual who is entirely contained within himself. (ibid., 573)

It is precisely for this reason that the judgment of “pure economic theory” is of little interest to us, and indeed is devoid of meaning; “pure economic theory” positions itself no[t] so much outside of, but against, reality. And therefore it cannot claim to judge either autarky or ninety

percent of concrete human actions, simply because they are not purely economic “real situations” but also “spiritual” and consequently political situations. The science of “pure economics” either ignores the State or considers it as an element of disturbance: how then can such a science issue a judgment on the activity of an existence that hinges entirely on the State? (ibid., 574)

Rather, it is a different point of view that offers a more pertinent starting point for an examination of autarky: namely the *new economy*, the economy that is based not on the individual but on the community and which, in referring to the concept of “utility”, has in mind that which satisfies not the individual but the entire collectivity as a unit considered over time (*corpus perenne*). (ibid., 574)

We believe that at this point the task of economic science has run its full course and it is time to hand over the task to politics; by forging a broad unitary synthesis which will include both the political and the moral factor, the political sphere will then judge, as the “Science of the State” ... (ibid., 574-575)

According to the “classical” school, one sure system would be that of absolute freedom of trade, since this solution would set the productive activities of the different countries in opposition to one another without any support whatsoever and thus in equal conditions. The outcome would then demonstrate which of these was the most economical. As can be seen, the theory expressed one of those characteristic libertarian and egalitarian conceptions that economic liberalism and political liberalism were replete with, according to which freedom and equality were concepts devoid of concrete value, being instead abstract and formal juridical dogmas. These conceptions were crystallized as the famous constitutional equality and the associated freedom of contract between the rich and powerful employer and the poverty-stricken worker who had no chance to resist. In other words, an equality that amounted to the absence of any superior force that could rectify the condition of the two conflicting parties. By the same token, the freedom of international trade was a freedom that setup a contest under “juridically” equal conditions between a rich, powerful and well organized industry and an economically weak industry barely in its infancy!

The protectionists therefore argued that in order to bring about the division of labor in the best manner, it was necessary for productive activities to compete with one another under conditions of *genuine equality*, i.e. of equal development. ...

The protectionist objection, the exactness of which cannot be doubted, struck a severe blow to the classical theories on international trade and in particular free trade. But what was even more serious was that it also opened up the first cracks in the very system of individualistic and automatic economy. This came about in a twofold manner: 1) because it showed that the spontaneous and free contest among “individual” interests did not necessarily lead to the maximum “collective” interest. Thus as opposed to the “being” deified by the classical economists there now arose a “becoming” through the individual’s forsaking of maximum immediate individual utility; 2) because it confirmed that the intervention of the State is not always, as was fondly believed, a disturbing and anti-economic element. Rather the State, by intervening alongside and not against the individual, can contribute to acting as the driving force of a more economic result than the individual himself could obtain if the unbridled forces of egoistic instinct were given free rein. (ibid., 581-582)

Instead of continuing to theorize and trying to give advice based on abstract, or fictitious, principles, what is needed is to move closer to reality. It is vital to interpret the new demands, in order to design a principle that is truly capable of eliminating the infinite, adverse effects of the current system of international trade, which still clings doggedly, but only formally, to non-applied and inapplicable concepts.

Such a principle is that embodied in autarky, as a theoretical and practical principle of economic organization. (ibid., 588)

Modigliani earned his Ph.D. in economics in 1944 from the New School of Social Research. “The crucial figure for me at the New School was Jacob Marschak” (Modigliani 2001, 19). At this time Modigliani began building his illustrious career in modern Keynesian macroeconomics, beginning with the publication in *Econometrica* of “Liquidity Preference and the Theory of Interest and Money,” which was the basis of his dissertation.

Shortly thereafter, Modigliani published in Italian the aforementioned article on “The Organization and Direction of Production in a Socialist Economy” (Modigliani 1947), from which we provide some newly translated passages in the

Appendix. Gary Mongiovi, in an unpublished paper on “Keynesian Economics and Socialism,” tells of the article:

The article was written in Italian; Modigliani never published an English version of it, and indeed appears never to have referred to it until the publication of his autobiography shortly before his death. The paper, which runs to 75 pages, argues the case for socialism, along lines laid out by earlier market socialists like Abba Lerner and Oskar Lange. Modigliani’s aim appears to have been to lay out a practical guide to implementing a socialist program that could actually work; such a program would have to make use of the coordinating properties of the price system. At the outset Modigliani remarks that the economics of socialism—the literature initiated by Enrico Barone’s “classic study” on “The Ministry of Production in a Collectivist State” (1908)—is among “the most interesting and promising” developments in economic theory. He indicates in an opening footnote that “The present study is part of an unpublished work whose purpose is to lay out the fundamental principles of the modern economic theory of a socialist state” (1947, p. 441); yet nowhere else in his subsequent work did Modigliani address these issues: the project appears to have been abandoned. The 1947 paper contains few references to the literature, and it is perhaps worth noting that most of the literature cited by Modigliani is on the socialist side of the debate—Lange, Lerner, H. D. Dickinson, James Meade and Pigou; there is no discussion of Hayek, von Mises or any other critic from the Austrian camp. (Mongiovi 2011, 13-14, quoted with permission)

Modigliani writes about the 1947 article in his 2001 memoirs:

In retrospect, we know that socialism failed because it was unable to carry out the task of creating a mechanism for formulating prices. At that time, however, we were more interested in the limitations and failings of a capitalistic-style economy ... [T]he absence of a capitalist-style price system means that economic resources cannot be used intelligently or efficiently to satisfy the needs of society. This is because prices offer the only objective criterion for evaluating the economic requirements of society and for establishing the most economical way of satisfying them.

Over the years, we have often seen price controls applied in market economies. They have nearly always been catastrophic ex-

periences. This is not because they were necessarily morally wrong but simply because they obstructed the price-formation mechanism. And that is the only way so far discovered by humans to allocate the resources of society efficiently. This is why I have never tired of suggesting solutions that, while letting the market determine its own prices, enable governments to reallocate resources throughout society by fiscal means. (Modigliani 2001, 166-167)

Modigliani then speaks of events in 1948, personal conversations and reflections, that led him at that time to “distance” himself from “whatever sympathy I had entertained for socialist theories” and to “embrace democratic liberalism unreservedly” (2001, 167). Once again, one might view the 2001 memoirs as Modigliani opening up about his past.

Modigliani joined the faculty at the New School in 1944 and then moved to Chicago in 1949 as a Research Consultant to the Cowles Commission, and he held a position at the University of Illinois until 1952. Subsequently, he taught at Carnegie Institute of Technology and Northwestern University before moving to MIT in 1961 where he “remained ever since” (Modigliani 1986).

Like many leftist economists of his day, Modigliani was interested in econometric models of the economy. Sutch speaks of an “important direction for Modigliani’s research”:

He was asked to construct an econometric model of the US economy by the Federal Reserve. The model would be an empirically estimated system of simultaneous equations that would be used by the Federal Reserve to make and guide policy and forecast future developments. He asked Albert Ando to join him on the project and they created what was first known as the “MIT model” and, after Ando moved to the University of Pennsylvania, as the “Federal Reserve-MIT-University of Pennsylvania Model”... (Sutch 2008)

Sutch cites Modigliani (1975) and adds: “The model proved sufficiently valuable that the Federal Reserve continued to use it into the 1980s.”

In the 2001 memoirs Modigliani writes of his visit to Sweden in 1973 and his enthusiasm for “the Swedish success story”:

The brilliant results...have been achieved by keeping the system of free enterprise intact... Here, socialism is not about the sterile nationalization of the means of production inspired by some abstract ideology. It is about being pragmatic; thus, it exploits the efficiency and flexibility of the profit-making private enterprise system by making

judicious use of incentives to guide production in socially useful ways. In addition, it takes the form of a gradual reduction of economic inequality via redistribution of income in a complex, advanced social security system. (Modigliani 2001, 171-172)

In the 1960s Modigliani began to take part in public debate in Italy (see Modigliani 2001, 170-262). Based on the treatment offered in Andrea Micocci's chapter "Modigliani, Economics, Italy," it seems that Modigliani's policy advice consisted of such reforms as denationalizing certain enterprises, making labor markets more flexible, and encouraging private investment (Micocci 2009). Micocci writes, with apparent dissatisfaction, that "Modigliani's proposals are certainly part of the conventional economic wisdom" (2009, 52). Modigliani later described himself as having "participated actively in the debate over economic policies both in Italy and the U.S., concentrating lately on the deleterious effects of the huge public deficits" (Modigliani 1986).

Modigliani was interviewed by Arjo Klamer (1984). When asked whether he was aware of the clash between between Chicago people and MIT people, Modigliani responded:

I was very aware of the problems with the Chicago people. In some sense I have become more understanding of what Milton Friedman has been arguing. Friedman is driven by the idea that whatever the government does is bad. He has a mission and seems to be willing to sacrifice some intellectual honesty for that. (Modigliani 1984, 120)

In a 1976 Presidential address before the meeting of the American Economic Association, Modigliani said: "We must, therefore, categorically reject the monetarist appeal to turn back the clock forty years by discarding the basic message of *The General Theory*. We should instead concentrate our efforts in an endeavor to make stabilization policies even more effective in the future than they have been in the past" (Modigliani 1977, 17-18). Elsewhere, Modigliani (1979, 40) wrote: "Mr. Friedman has a profound disbelief in the ability and honesty of government. I think he would therefore be inclined to argue that, even if the government could stabilize the economy, it should not be trusted with the power, because it could always be used for evil. Fortunately this advice was never heeded, and on the whole, during the period before 1970, stabilization policies were pursued." He continues: "Whether stabilization worked is not a question that can be answered so easily, but the record of the period seems to indicate that it was fairly successful."

In 2003 Modigliani signed a petition against the tax cuts of the George W. Bush administration (Hedengren et al. 2010). He also spoke out against proposals

to privatize Social Security, which he believed would disproportionately hurt the poor (Uchitelle 2003).

## Appendix: Passages from Franco Modigliani's “L’organizzazione e la direzione della produzione in un’economia socialista” (1947)

selected and translated by Viviana Di Giovinazzo<sup>42</sup>

(p. 441)

### **The Organization and Direction of Production in a Socialist Economy**

(p. 442) *I – 1 – Problem Setting*

[...]

In carrying out this task we will be able to show that the socialist system is not only economically possible, but also that such a system should possibly work much better than the private enterprise system.

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(p. 446) *I – 5 – The Four Rules in a private enterprise system.*

[...]

There is no doubt that the First Rule<sup>43</sup> is generally fully applied. As for the Second,<sup>44</sup> we can notice that use to which the factors of production are put can be chosen freely (1); however the private enterprise system is usually unable to ensure the utilization of the entire available quantity. And, indeed, cyclical unemployment is without doubt the most serious shortcoming of such system. The Third<sup>45</sup> and Fourth<sup>46</sup> Rules tend to be satisfied *when and only when* the production and market

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43. (p. 445) *First Rule* — Each individual must be free to spend his own income as he pleases and the market price of each good must be decided so that the quantity demanded equals the quantity available.

44. (p. 445) *Second Rule* — Each individual must have the full freedom to choose his own occupation, naturally, within the limits of his objective capacities. The price that the firms must pay for the use of every factor of production must be determined according to the principle that demand equals supply.

45. (p. 445) *Third Rule* — Any good must be produced adopting that method which, applied with the maximal efficiency, leads to the minimal total production cost.

46. (p. 446) *Fourth Rule* — The person in charge of organization and management of production must fix and adjust the level of production so that the marginal cost of the marginal quantity produced equals the value of the market price.

conditions lead to *perfect competition*. Under imperfect competition (that is, when one firm is able to influence significantly the market price) the Fourth Rule is never satisfied: seeking the maximum profit, the private entrepreneur tends to (consciously or unconsciously) equalize marginal cost and marginal revenue, which is always inferior to the price. Finally, the Third Rule tends to be satisfied under monopoly but not under imperfect competition in the broad sense. The competition of new firms has the effect of containing profits to a normal level, but only by generating an excessive number of firms of non-economic dimension and with high cost of production.

From what we have said so far, it is clear that, if the purpose of the socialist State is to maximize collective welfare, the socialization of firms *is not necessary* under perfect competition. If nonetheless it shall be considered reasonable to socialize the firms, the best thing that can be done is to order the company managers to manage “as if” they were private entrepreneurs. On the contrary, in general, under imperfect competition it is necessary to socialize firms and order to the managers to apply the Four Rules.

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(p. 447)

[...]

Given what we said so far, it is clear that if the purpose of the socialist State is to maximize the common welfare, the socialization of the firms under perfect competition *is not necessary*. Should it nonetheless be deemed worthwhile, the best thing to do is to order the company managers to manage production “as if” they were private entrepreneurs.

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(p. 447) II – 1 – *Problem Setting*.

The previous section demonstrates the vital contribution that economic theory is able to bring to political Socialism.

The same old aphorisms that are usually repeated from many sides, such as “production for consumption and not for profit” or “the firm must be run in the general interest” are completely empty if they are not made concrete in precise, objective and verifiable rules. The capitalist system works, even if with many inefficiencies, because the company manager has a precise task to accomplish: to maximize company profits.

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(p. 448) II – 2 – *The function of the productive factors prices in a socialized system*.

The prices of *consumption goods* have essentially the same function in a private capitalist system as in a socialized system. They help to ensure that the goods

produced are assigned precisely to those individuals that desire them more intensively. In a private enterprise system this important function of the prices of consumption goods is considerably compromised by the fact that the capacity of each consumer to realize his own desire depends on his income, and that such income is distributed highly unequally among consumers; so that a secondary need of a “rich” individual carries greater weight than the more urgent needs of a “poor” individual. This shortcoming will be considerably reduced, if not completely eliminated, in a socialist system, as we shall show in the chapter on income distribution.

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(p. 463)

[...]

The Fifth Rule<sup>47</sup> is clearly the one that allows the private entrepreneur to decide whether or not it is reasonable to engage in a new production initiative. It should be noticed that such decision is always based on an uncertain hypothesis about consumers’ tastes, reinforced by some previous experiment. In this respect, the major difference between a private system and a socialized one is that in the former decisions are made by a “potential entrepreneur” who has capital or access to credit: in the latter, on the contrary, the decision must necessarily be taken by some community’s administrative authority. Well, one should admit that, in this field, there is a serious danger that the socialist system will prove to be considerably inferior to a private enterprise system.

The prospect of large profits and the risk of possible losses constitutes, without doubt, an extremely efficient mechanism to induce the entrepreneurs to be open to new ideas and, at the same time, prudent in introducing them.

On the contrary, in a socialist system one alternates between two opposite and equally serious dangers: on the one hand there is the danger that, lacking the profit incentive, the one who administrates the social wealth will shrink from the novelty and remain stuck in the routine; on the other hand, there is the danger that using capital that is not his, he embarks on senseless undertakings, wasting the resources of the community.

[...]

B) [...]

We should notice that as far as large-scale decisions are concerned, it is likely that, in the final analysis, there won’t be a big difference between the socialist system and the current one, because in the latter also large investments are made

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47. (p. 463) Fifth Rule: The production of a new good is always justified when the price that consumers are willing to pay for one of the possibly producible quantities is adequate to cover the total cost of production.

with public capital more than with that of the private entrepreneur and carried out on the basis of previous consultation with various type of production and market specialists.

[...]

(p. 465)

E) [...]

Lastly, managing directors should be repeatedly reminded that their job is to pursue the welfare of consumers, and that this task requires not only prudence but also intelligence and courage. The originality and success of the experiments must be one of the main criteria of the economic bureaucracy's progress.

It is to be desired that with these, or similar, measures, the socialist system will be able to hold its ground, in terms of dynamism, against the current capitalist system. Indeed, it should be noted that also in the modern capitalist system, the business direction is frequently in the hands of "employees" paid in fixed wages and bonuses, and that firms in conditions of more or less perfect monopoly, do not always distinguish themselves by their dynamism.

There is no reason to fear the possibility that the Research Commissions could be heavy and expensive bureaucratic organizations. Economic research is currently managed, partly by the firms themselves, partly by some offices financed by the employers' organizations. Thanks to the immediate diffusion of every technical and organizational progress, entrusting the coordination of research to a single central organization will reduce the cost and increase the practical results.

In addition to the function described above, the Research Commissions shall have a thoroughly important and delicate task: that of deciding about the opportunity to open new firms or to reduce the number of the pre-existing ones. In a capitalist system this problem is resolved by way of the profit mechanism. (p. 466) High profits attract new firms, whereas losses tend to reduce the number of existing firms. On the other hand, in a socialist system, high profits do not *ipso facto* attract new firms because there are not potential entrepreneurs, ready to exploit the opportunity. As for the reduction of firms, this shall occur only in the case where the price falls to the point where it prevents one or more firms from covering also the direct costs.

Thus, the profit mechanism must be replaced in the socialist system with this final and following Rule, which we will call the Sixth Rule.

*Sixth Rule* — The number of the firms must be determined by the principle that the total cost of the quantity produced by all firms must be at a minimum. That is, in the absence of changes in demand, the total number of firms must be increased or diminished if and only if this provokes a diminution of the total production cost. The application of this rule clearly exceeds the concern of the

managing directors, because it requires the knowledge of the state of the entire branch of production.

[...]

(p. 467)

It is clear that the Sixth Rule must be applied with extreme caution and that the state outcome it pursues can never be fully realized, mainly because the economic conditions change continuously. Still, it has to be envisaged that in a system of private enterprise, it is not only the case that such a condition (optimal firm number and dimension) is not always satisfied but, in fact, it *cannot be satisfied*. In a socialist system there will be at least a continuous effort in the right direction, even if the results can never be perfect.

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(p. 480)

[...]

Incidentally, we notice that various fascist economic systems (particularly the Nazi and Japanese ones) accumulate the shortcomings of the capitalist system and the communist one. Indeed, current production is in the hands of private enterprises and, consequently, aims at earning a profit and not at realizing the common welfare. Investments are made in accordance with a plan, but the scope of this plan is not the common welfare, but rather the military strengthening of the nation. Furthermore, the centralization of political and economic power in a social class gives rise to unprecedented exploitation of the working class.

On the other hand, it is clear that the socialist system combines the advantages of the capitalist system (economic decentralization, consumer sovereignty) with the advantages of the Soviet system (investment coordination and production for consumption).

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(p. 482)

[...]

While the job of an engineer or a doctor isn't necessarily more tiring than that of the unskilled worker or subordinate employee, the income of the former nonetheless considerably exceeds that of the latter. This is clearly due to the circumstance that the former require particular natural abilities and long technical training. Given that this is true for a socialist system as well as for a capitalist system, it is easy to expect that such difference will remain.

However, in a capitalist system some professions are accessible only to those who, having a minimum of skills, possess adequate financial means. In this way, those who belong to wealthy families have easier access to differential wages so that

income inequalities tend to be perpetuated and to increase. This manifest injustice can and must be abolished, not by arbitrarily removing the wage difference, but rather by guaranteeing to everyone the same means, regardless of family income. Concretely, this means that in the socialist system technical secondary education also must be supplied free of charge to anyone who shows a natural inclination, by means of scholarship programs.

[...]

However one may ask if it is actually justifiable to accept (p. 483) differential incomes for individuals who differ only in natural inclination. To answer this question, one should notice that the general interest requires that an individual, able to perform different tasks, be induced to choose precisely that economic activity whose productivity, and consequently price, is higher; otherwise, he will produce goods or services of an inferior value in comparison to what he is able to produce, resulting in a general loss.

Therefore, the difference in income should be considered not as a reward for a natural skill, but as the necessary mechanism to stimulate the supply of services that have the greatest economic value for the community.

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(p. 488)

[...]

In conclusion, we can certainly affirm that saving is socially useful, given that it allows one to increase the quantity and improve the quality of the means of production available to the community, and consequently, to make work more productive. However, if saving is not invested, it becomes not only useless, but also seriously dangerous because it gives rise to unemployment; and the capitalist system lacks an effective means of guaranteeing the investment of potential savings. Therefore, it is frequently incapable of avoiding large-scale unemployment.

With these points in mind we can now consider the solution of the savings and investment question in a socialist system.

The matter clearly has two aspects: a) who must be entrusted with the savings function in the socialist system? Must the savings function be considered a private, collective, or mixed function? b) how can an efficient coordination between savings and investment be assured, so as to eliminate unemployment?

The second question has been already partially answered in chapter II. Investment coordination is in fact a basic step towards solving the problem; other, different methods shall be recommended in the last section of this chapter. For the moment we shall concentrate our attention on the first problem.

(p. 489)

[...]

In our opinion, the problem of savings and the inheritability of wealth must be resolved in the socialist system according to the simple principle that *anybody has the right to increase his own income with his own sacrifice*.

Given that savings implies a sacrifice, there is no reason to prevent individuals from increasing their own income in such a way. Anyway, the transmission of other goods for free (either by legacy or donation) should be limited or subject to special regulation, because the person receiving such goods receives an increase in income with no corresponding sacrifice or performance.

Once individual saving is allowed, the conditions upon which such savings can be invested should be decided.

[...]

b) Savings may possibly be deposited in savings accounts or invested in government bonds. Of course, government bonds will be the only existing bonds, given that all the big industrial and banking publicly-quoted firms will be transformed into public firms and financed by the State.

[...]

(p. 490)

d) [...] In our view, the right to own a home should be acknowledged and so, therefore, should the right to use savings for this purpose. According to the above-mentioned principle, the property right acknowledged for certain types of goods shall not include the right to dispose of them as one wishes; the transmission of goods free of charge to private citizens should be prohibited, except for consumption goods. However, for several reasons, the strict application of this principle is not advisable. Firstly, it will remove any incentive for saving and for the maintenance of the material goods purchased thanks to those very savings. To this shortcoming that, as we will shortly see, is not essential, we must add another more serious one: the danger of tax evasion and fraud on a large scale.

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(p. 499)

[...]

We have similarly shown that the socialization of firms under perfect competition, to the extent that it is possible, is not necessary because, in such conditions, the private pursuit of maximal profit leads automatically to maximal common welfare. In fact, under such conditions, the rules that the private entrepreneur strives to follow (consciously or unconsciously) are precisely the same rules that the socialist State should prescribe to the socialist manager.

Consequently, a question should be raised: if the socialization of such firms is not necessary, is it opportune?

In the first place, we notice that, in the best possible situation, the socialist enterprise could not pursue the collective welfare better than the private one. On the other hand, it is possible, if not probable, that that socialist one, not having a direct and personal interest as strong as the private director, might, on average, be less “efficient” than the latter.

Finally, it should be added that when there are the conditions for free enterprise, the productive firms are numerous and relatively small and, consequently, the entrepreneur would require vast, expensive, and strict surveillance by the bureaucracy. These and similar conditions lead economists to conclude that the socialization of enterprises under perfect competition is inadvisable, because it would not be able to increase collective welfare, whereas, almost certainly, it would cause a significant reduction of the national income.

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(p. 503)

[...]

The private enterprises that will be able to face the competition will survive, and there is no reason to forcefully eliminate them, because they clearly serve the general interest. On the contrary, the other “inefficient” enterprises will be automatically eliminated.

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(p. 505)

[...] 2) In our opinion, a much more decisive issue is the fact that the task of the socialist director is considerably easier than that of the private one. In order to maximize profits, the private entrepreneur must match marginal cost and marginal revenue, whereas the task of the socialist director consists in equalizing marginal cost and price.

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(p. 506)

[...]

Therefore, “collective bargaining” in the socialist system has no purpose and might only be useful in illicitly protecting certain interests to the detriment of the general interest.

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(p. 514)

[...]

It remains only to conclude by repeating the words of Oskar Lange, written in 1937, "...there is but one economic policy that the economist may suggest to a socialist government with the hope of success: revolutionary courage."

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## Dale T. Mortensen

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Born and raised in Oregon, Dale Mortensen (1939–) went to Willamette University, studying economics and mathematics to “combine my interest in analytical problem solving with a concern for social issues” (Mortensen 2011). Mortensen reflects on his childhood:

My parents, as one of a few with any advanced education among the fruit growers and loggers of the [Hood River] valley, entertained the intellectuals of their community, their colleagues of like mind, the local school teachers, and a few eccentrics. I grew up listening to my father argue politics into the night and taking trips every Saturday to the

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Hood River library where my mother maintained her interest in reading and encouraged the same from her sons. (Mortensen 2011)

On his academic development:

I was a good student with mathematical ability and interests. As such, I took the usual college preparatory program in high school for one looking to become an engineer, all the available courses in mathematics and science. In my last two years of high school and all through college, I also used these skills in summers as an assistant to my father who managed the forest holding of a local timber company, a job that included assisting in surveying the company's land, cruising its timber, and designing the roads used in the logging operations. I was also "well rounded" in the sense of that cliché in the 1950s. I had participated in boy scouts and 4H while in elementary school, had a bass baritone voice which I used in school and church choirs until 15 years ago, dabbled with acting and musical theater in both high school and college, and lettered three years as a member of the varsity football team of Wy'east High School, the new combined high school that served the valley students. . . .

In my last year at Wy'east, I became interested in American social history of the late 19th and early 20th centuries and the related literature, much of which concerned the industrialization of America. My grandfathers had been immigrants in the period; one had done reasonably well but the other lost his wife to tuberculosis in the twenties and his farm to the Depression of the thirties. From Sinclair Lewis, Hemingway, Faulkner and Upton Sinclair as well as the stories that my father's friends told about their experiences, I expanded my knowledge of the human condition during this period. From the progressive historians of the early twentieth century, I formed my own picture of the industrialization that had transformed the country at that time and developed an understanding of how it had affected the lives of my elders for both better and worse. By the end of my senior year in high school, I faced a dilemma . . . how could I combine my interest in analytical problem solving with a concern for social issues?

A high school friend . . . told me about his economics professor at Willamette University, Richard Gillis, who had inspired him in his first year at university. By chance, I had also found at the Hood River Library *The Theory of Games and Economic Behavior* by von Neumann and Morgenstern, the seminal text on what was to become game theory as

well as a major application of mathematics to social analysis. I realized that economics was a possible way to combine my two principal interests. The next year I enrolled in Willamette as the beneficiary of a full tuition scholarship, majored in economics and mathematics, and ended up as one of...the senior assistants to Professor Richard Gillis in my senior year. (Mortensen 2011)

After earning his bachelor's, he went for his Ph.D. to the Carnegie Institute of Technology (now Carnegie-Mellon). While working on his thesis, Mortensen was hired by Northwestern University, where he has been since. He was awarded the 2010 Nobel Prize in economics, along with Peter Diamond and Christopher Pissarides "for their analysis of markets with search frictions."

Mortensen's Nobel-winning work applied search theory to labor markets and unemployment. Upon receiving the prize, Mortensen summarized his research in a sentence: "It takes time for workers to find jobs and for employers to find workers" (quoted in Tremmel 2010). In their noted joint work, Mortensen and Pissarides (1994) found that unemployment spikes can lead to a vicious cycle, as Tyler Cowen explains:

The key point in this paper is to show how unexploited gains from trade can persist in labor markets. ... One way of putting the point is that negative shocks alter search behavior by both workers and employers and so fewer favorable matches come about. In particular, the rate of job destruction is extremely high. There is also an asymmetry between job creation and job destruction.... (Cowen 2010)

Mortensen has taken insights derived from his research on unemployment into other areas. After he showed that matching theory also applied to "the marriage market," other researchers tried to figure out how couples choose each other; they found that spouses often have similar levels of education. Matching analysis also sheds light on the housing market, as houses are heterogeneous and have important attributes that are hard to quantify (Mortensen 2010b).

Mortensen does not talk much about his political ideology; our guess is that his ideological outlook is, in the American context, establishment-left.

In an interview, Mortensen said that his models "help one analyze the impact of different policies on jobs once all the proper data are entered. That way, policies can be tweaked to achieve the right mix for better job growth" (Mortensen 2010b). Asked in another interview about creative destruction of agricultural jobs, Mortensen said, "Even though there may be economic gains there are social costs and governments should try to cushion some of those costs" (Mortensen 2010a).

When asked about the absence of unemployment benefits in India, Mortensen answered, “Having social nets seems to be an eventual outcome of development,” adding, “In the meantime, it would appear that the way to make labor markets and everything else in India more efficient is to improve the infrastructure—communication, transportation and the institutions of exchange” (Mortensen 2010a).

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## Robert A. Mundell

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Robert Mundell (1932–) attended the University of British Columbia and the University of Washington for his undergraduate studies. Mundell remembers: “During World War II, my father, who was in the army, kept maps of the war theaters on our kitchen wall, and I kept up that interest in high school. I remember particularly being appalled by the Soviet occupation of Eastern Europe. It seemed to me as I entered college that the major problems in the world concerned international relations—especially with the Soviet Union—and living standards. So I studied Russian and Slavonic Studies at UBC, along with economics, which gradually evolved into a deeper passion” (Mundell 2006, 89-90). While a student at

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UBC, Mundell was in the Canadian Officers' Training Corps when the Korean War broke out, though he was never deployed.

Mundell's education continued at the London School of Economics, then he earned his Ph.D. from MIT. He taught at Stanford, Johns Hopkins, and the University of Chicago before settling at Columbia in 1974. Mundell's work focused on international trade, and he earned the Nobel Prize in 1999 "for his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas."

In 1961, Mundell joined the staff of the International Monetary Fund Special Studies Division. At this time, the Kennedy Administration's Council of Economic Advisors advocated, through Paul Samuelson and James Tobin, a neo-classical mix of "easy money to lower long term interest rates and run a budget surplus (if necessary through higher taxation)" (Mundell 1985, 14). Mundell says:

My research had shown that the neo-classical synthesis of easy money and a budget surplus would worsen the balance of payments and increase unemployment. This novel result naturally led me to the conclusion that the correct policy mix for the Kennedy administration was just the opposite of the one being followed and the policy recommended by the I.M.F. What was needed was tight money and a tax cut. ... My paper recommending the alternative was circulated throughout the I.M.F. and the government[s] of all its member countries in Autumn 1961...during the Kennedy stock market slide. But the U.S. persevered with their destabilizing policy mix for another half year. Finally, in December 1962, in a speech at Yale, President Kennedy shifted to my policy mix. The course was set for the tax reductions scheduled for 1963. Unfortunately, Kennedy did not live to see the great success of his new economic policy, which Congress passed only in 1964, an election year. (Mundell 1985, 14-15)

In 1968, Mundell said: "The Great Depression affected the government institutions of the major countries and brought to the forefront the responsibility of the government for preserving the stability of the economy. Today every government regards itself as responsible for the prevention of severe depressions and the control of inflation. Government has to formulate economic policy to prevent or ameliorate the ups and downs of economic activity and prices. ... The problem of government policy, therefore, is to manage aggregate demand and supply so as to eliminate excess supply during a depression and excess demand during inflation" (Mundell 1968b, 101-102). He continued: "Once an economy is on an even path of growth, with the money supply expanding at a suitable

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rate...and productive factors more or less fully employed, it is necessary that the government manage its affairs in such a way that stability is maintained” (ibid., 103).

Mundell viewed complete non-intervention as unrealistic:

For any given state of economic organization the existence of spillover (neighborhood) effects, or *externalities*, would mean that society would not achieve, in the absence of government intervention, a maximum product or a social optimum. (This does not mean that government intervention would lead us to a social optimum; utopias are not for this world.) Those industries that yielded external diseconomies, that is, those industries producing harmful by-products causing damage or creating costs for others, would tend to produce too much for the good of society. ... For these reasons there is an argument for interfering with free competition by taxing industries that produce harmful side effects and subsidizing industries that produce beneficial side effects. (Mundell 1968b, 182)

Mundell, however, advocates decentralized intervention:

The range of externalities is so widespread throughout society that it might be thought that the case for intervention in nearly every sphere of human activity is a compelling one. Indeed this is the argument usually raised by socialists. ... We could first of all look at the tangible costs of government and the increasing cost of big government. More elaborate hierarchical tiers imply a loss of control; bureaucracy sets in, and big government can accomplish only rather inefficiently many things that can be done efficiently by the local community or the individual. It is hard indeed for a government in Washington to make efficient decisions about local roads in the townships of Illinois or the wilds of the Dakotas because of unfamiliarity with the needs of the local community; it is difficult for the planner in Delhi to decide how many nuts and bolts should be allotted to a factory in Madras. It is on this account far better for the local inhabitants (or entrepreneurs) to make the decisions on the spot and even pay for the roads through local taxes (or for the nuts and bolts out of company funds), since the community residents (or the individual firm) will capture the major benefits of local projects. (Mundell 1968b, 191-192)

Mundell also cautioned against the centralized welfare state:

Social welfare benefits constitute another case where decisions at the federal level are by themselves unlikely to be efficient. Nationally administered welfare schemes typically set national standards fixed in terms of money. . . . The best that can be done, therefore, is to establish *minimum* national standards (if they are necessary) and exploit the advantages of decentralized decision making for supplementary requirements, to take advantage of tailoring particular situations requiring specialized community knowledge to the specific needs of inhabitants. (Mundell 1968b, 192)

He concludes on freedom: “To some people freedom is a divine dispensation, a natural birthright of man, like a soul, a gift from God, the symbol of man’s separation from other species. Whatever the validity of that concept of the origin of freedom, there is no way of proving or disproving it. It is an approach to life, perhaps worthy of respect, but it is not a scientific answer. It is no help to us in answering questions about the proper jurisdiction of government activity” (Mundell 1968b, 195).

Mundell advocated putting “monetary policy out of reach of politicians” (Palast 2012). Mundell also supports policies of monetary stability (Mundell 1997). The consequences of monetary policy go far beyond economic growth, Mundell says:

Had the price of gold been raised in the late 1920’s, or, alternatively, had the major central banks pursued policies of price stability instead of adhering to the gold standard, there would have been no Great Depression, no Nazi revolution and no World War II. (Mundell 1999)

He has criticized the Federal Reserve’s action in the Great Depression:

What verdict can be passed on this third of the century? One is that the Federal Reserve System was fatally guilty of inconsistency at critical times. It held onto the gold standard between 1914 and 1921 when gold had become unstable. It shifted over to a policy of price stability in the 1920’s that was successful. But it shifted back to the gold standard at the worst time imaginable, when gold had again become unstable. The unfortunate fact was that the least experienced of the important central banks—the new boy on the block—had the awesome power to make or break the system by itself. (Mundell 1999, 330)

Mundell has long supported an international currency. In 1968, he wrote that the most practical alternative to the dollar standard was international currency (Mundell 1968a, 1134).

In 1977, Mundell declared a set of goals for the “new international monetary system” to stabilize violent economic swings: “The goals of the new system should be full employment, price stability, moderate growth, freedom of international commerce and lending, and wiser global conservation policies, as mineral scarcities and prices increase secularly. Furthermore, in each country there should be a rational balance between available resources and total spending, subject to cushioning by reserve use for smoothing, and some reliance on short-term lending in the system” (Mundell 1977, 242-243).

Mundell has signed petitions warning about the future of Social Security, opposing John Kerry for president, and supporting John McCain and Mitt Romney (Hedengren et al. 2010).

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## Roger B. Myerson

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Roger Myerson (1951–) was born and raised in the Boston area. He earned his bachelor's, master's, and Ph.D. in applied mathematics from Harvard University. Myerson won the 2007 Nobel Prize in Economics with Eric Maskin and Leonid Hurwicz “for having laid the foundations of mechanism design theory.”

Professor Myerson (2013) has kindly responded to our questionnaire. He indicated that, politically, he is a market-oriented Democrat. His views have not changed significantly, he says: “The questions of the world have changed, but my basic approach to political questions has not greatly changed during my adult life.” Myerson (2013) makes it clear that foreign policy has been a strong factor in his favoring the Democratic Party over the Republican Party.

The work for which Myerson won the Nobel is, he says, at its root “about communication and incentives to share information that other people need for decisions” (Myerson 2007). Tyler Cowen summarizes Myerson's work:

His most cited paper is on auction design. He laid out basic results for how to use auctions to extract revenue and elicit information about the value of the good. These results have informed numerous privatizations and auction schemes in the last twenty-five years. [He has] a very important paper, with David Baron, on how to regulate a monopolist with unknown costs. ... Myerson also has important papers on how social choice theory is linked to bargaining theory, and which social choice procedures are most likely to elicit truth-telling. (Cowen 2007)

Myerson's work also has implications for political theory. “Democratic competition is intended to reduce such corrupt profit-taking by political leaders, but my analysis suggested that the effectiveness of democracy against such corruption can depend on the specific structure of the electoral system” (Myerson 2008a).

Myerson has applied game-theoretic ideas to the American invasion of Iraq. He wrote: “I applied Schelling's ideas about credible deterrence to show that how [sic] America's rejection of multinational military restraint could exacerbate threats against America” (Myerson 2008a). He was critical of the United States' method of attempting to establish democracy in Iraq (ibid.). Specifically, Myerson was concerned with the lack of federalism: “Similarly, the chances of a successful democracy in Iraq can be improved if these first transitional elections are used only to elect autonomous provincial governments” (Myerson 2003a, 2).

While leaning towards free markets and smaller government (Myerson 2013), Myerson writes about the tradeoffs of economic systems:

In comparison with free-market capitalism, socialism allows individuals to have less private property rights. Giving an individual ownership rights over property can help solve the moral-hazard problem of getting him to exert hidden efforts to manage the property well, but such individual ownership rights also give people different interests which may make it harder for them to communicate honestly with each other, thus exacerbating the informational problems of adverse selection. Conversely, collectivism can often ameliorate adverse-selection problems while exacerbating moral-hazard problems. (Myerson 2008b, 336-337)

As a young adult, Myerson supported Jimmy Carter. He later opposed Reagan's nuclear policy, which Myerson saw as uncompromising and destabilizing. He "was sympathetic with many of Reagan's economic initiatives to strengthen free-market competition, but Democrats were also supporting deregulation" (Myerson 2013). Although open to voting Republican for "their positions on free-market and size of government issues," Myerson supported Bill Clinton because of his views on such domestic issues as abortion (ibid.).

In 2009, Myerson commented on the political implications of the global economic recession:

Thankfully, this global economics recession is also not comparable to the years of the Great Depression in its geopolitical ramifications. There is certainly lots of suffering, but there are no signs, as some are concerned, it will result in the rise of militant political movements to power, like we saw with the Nazis in the wake of the German depression. In my view, the linkage between economic depression and the rise of militant power doesn't really exist. (Myerson 2009, 54)

Myerson wrote in 2010 on the Obama administration's response to the recession:

When President Obama was inaugurated in January 2009, the American economy was sliding into recession because of a catastrophic loss of confidence in our financial system. In the previous decade, global investors' confidence in American financial institutions had brought vast capital inflows into the American economy. This confidence had been based on a perception that America's legal and political system

provided safeguards for investors that were second to none in the world. This confidence was shattered in 2008 with the collapse of Lehman Brothers.

A meaningful and effective financial regulatory reform in 2009 could have restored investors' confidence, reviving investment flows and stemming the loss of jobs. Imagine how different the economic environment might have been on election day in 2010 if President Obama could have announced by September 2009 that, after an intensive review of the financial regulatory system by both Congress and the White House, he was signing into law some carefully designed and well-focused reforms that could restore investors' and taxpayers' confidence in American financial institutions.

The focus on health care reform made it impossible to achieve meaningful financial regulatory reform for more than a year after President Obama took office. Health care reform and financial regulatory reform are both extremely complex issues and both have been fiercely resisted by powerful vested interests. Neither reform could be accomplished without strong political leadership at the highest level. The Obama administration could only address one at a time, and only one could be the central focus in the crucial first year when the new President's political capital was greatest. The Obama administration chose in 2009 to focus on health care reform.

It may be surprising that, when a catastrophic macroeconomic decline is clearly being caused by a loss of confidence in the basic regulatory controls of our financial system, that many leading economists would not see financial regulatory reform as an urgently needed remedy. (Myerson 2010)

In a 2011 interview, Myerson said, "Government spending has a critical role to play in building a great society and a great economy." He advocates letting Bush-era tax cuts lapse and returning to Clinton-era tax levels. He sees the U.S. as needing "relaxed monetary policy to stimulate the economy," with up to 9 percent short-term inflation and a longer-term inflation target of 3 to 4 percent. As such, he supports quantitative easing policies (Myerson 2011b).

Professor Myerson's full response to our questionnaire follows:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My parents were liberal Democrats, strongly supporting the civil rights movement and opposing the Viet Nam war. I worked for Gene McCarthy and for George McGovern, who at least carried my home state of Massachusetts. But in college, I also opposed radical moves to close the universities down in protest against the war. I felt that we should not undermine our institutions of higher education just because we were upset about the war. A desire to join with other students in calling for our universities to remain open led me to join the Young Republican club in my college for a time.

*2. How about at age 25 or so? Had they changed at all by then?*

I supported Jimmy Carter for president, and I still admire him greatly.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

My opposition to Ronald Reagan was based mainly on his policies on nuclear weapons. Even as the Soviets moderated ideologically, Reagan seemed unwilling to sign treaties to limit our vast and profoundly dangerous stockpiles of nuclear weapons, and his enthusiasm for anti-ballistic missile systems struck me as dangerously destabilizing. I was sympathetic with many of Reagan's economic initiatives to strengthen free-market competition, but Democrats were also supporting deregulation.

At the end of the Cold War in 1989, I thought that the end of the nuclear arms race with the Soviet Union might create a political environment in which I could consider voting for Republicans as well as Democrats in national elections. After all, my training as an economist made me sympathetic to their positions on free-market and size of government issues. But then, after 1989, the Republicans tended to move en masse ideologically away from me on domestic issues such as abortion. So I supported Bill Clinton in both his presidential elections.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

In no election during my life has the difference between the two parties' positions seemed smaller and less important than in the 2000 election. I supported Gore, but saw little significance in the election of George W. Bush. But the invasion of Iraq in 2003 radicalized me. I actually joined a local community group that organized regular public protests against the Iraq war for months before and after the actual invasion.

After the invasion, however, when America took responsibility for Iraq, I felt that we greatly magnified the mistake of invading by taking the wrong strategy in the political reconstruction of Iraq. The question of how to politically reconstruct an occupied country to best serve its people is a fundamental question to which social scientists can offer important insights. Thus, in spite of my active opposition to the invasion of Iraq, the questions of counter-insurgency strategy that followed it have actually gotten me involved with military policy analysts, and I serve proudly on the board of a military journal that is devoted to studying the problems of political stabilization and state-building. I have recently written a paper on Standards For State-Building, a proposed set of standards for policies that could be recommended to an occupier who want to demonstrate that their temporary political control is aimed, not to impose some neo-colonial domination, but to create a stable democratic political system for the benefit of the local population.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?*

I have always been mostly concerned about avoiding the horrors of war among great powers. Although my views as an economist made me slightly more sympathetic to some economic policy positions of the rightist party in America, my views on international relations have always made me a strong supporter of the leftist party in America. As I review the history of my political thinking for this survey, I am struck at how constant that has been.

*6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

The questions of the world have changed, but my basic approach to political questions has not greatly changed during my adult life.

*7. We welcome citations to your writings that express your political views. We also welcome whatever tips you would give to someone researching your political views and their course over time.*

Please let me mention several short pieces that I wrote.

In February 2003, a few months before the invasion of Iraq, I wrote an op-ed piece that an old friend helped me to get published

in the *Minneapolis Star-Tribune*. Four years later, when I won a Nobel Prize for economics in the same week that Al Gore won a Nobel Peace Prize, one commentator (David Henderson, [link](#)) described my words in this article as “more important for world peace than anything Al Gore has ever done.” This 2003 article is available on my web page ([link](#)).

In May 2008, I was invited as a Nobel laureate to speak at a major conference in Jerusalem at the 60th anniversary of the founding of the state of Israel. There I spoke about peace-making from a similar critical perspective, focusing on the need for manifest restraint in deterrence strategies. My Jerusalem talk is available on my web page ([link](#)).

Finally, let me mention two papers on state-building. One article on “Rethinking the Fundamentals of State-building” was published in the military journal *PRISM* and is available online ([link](#)).

The other article on “Standards for State-building” is on my web page ([link](#)). (Myerson 2013)

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## Gunnar Myrdal

by Benny Carlson<sup>48</sup>

From the late 19th and up to the mid-20th century Sweden produced at least five world-famous economists: Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin, and Gunnar Myrdal. Ohlin and Myrdal were leaders of the Stockholm School in the 1930s, leading figures within the Liberal and Social Democratic parties respectively and both were in the 1970s awarded the Sveriges Riksbank prize in economic sciences in memory of Alfred Nobel. Myrdal became one of the world’s most famous economists, building his reputation on, above all, *An American Dilemma* (1944a) and *Asian Drama* (1968), and he was awarded the Nobel prize in 1974 to a large extent for his “penetrating analysis of the interdependence of economic, social and institutional phenomena.”<sup>49</sup> Lloyd Reynolds wrote: “It is hard to think of any other economist of our generation who would have had the courage, competence, and energy to carry through studies of such sweeping scope” (Reynolds 1974, 488).

In this profile I focus on Myrdal’s ideological development up to his establishment as a leading Swedish democratic-socialist intellectual and world-famous institutional economist. I will initially tap heavily from two sources: Bo

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48. Lund University, Lund, Sweden. I am grateful for comments and suggestions from Lars and Christina Jonung, and for assistance from Hannah Mead.

49. His co-laureate was Friedrich von Hayek, for many years his ideological foe.

Gustafsson (1989) and Walter A. Jackson (1990).<sup>50</sup> I will then focus particularly on Myrdal's conversion to institutionalism.

Karl Gunnar Myrdal (1898–1987) was born in the province of Dalarna, where his father was a farmer and building contractor. His family moved to Stockholm in 1904. To begin with, he followed in his conservative father's footsteps, but his ideological path would take him into the heart of the labor movement and into the machinery of government.

According to Jackson (1990, 41, 44), when Myrdal enrolled in high school he was regarded as “an outsider in the world of the Stockholm bourgeoisie;” he “sought to win acceptance from teachers and fellow students by embracing elitist views” but at the same time held on to democratic traditions from his childhood environment in Dalarna. During his high school years Myrdal was particularly influenced by his history teacher, John Lindqvist, who introduced him to the philosophy of the Enlightenment, and by the political scientist Rudolf Kjellén, leader of “the young conservatives”, a movement that was conservative in a nationalistic and anti-liberal sense, but radical in the sense of seeking, in an elitist way, a top-down transformation toward governmental management of labor and social welfare. Some of the ideas of Kjellén stayed with Myrdal throughout his life (Gustafsson 1989, 145). Kjellén had coined the enduring phrase “The People's Home” (*Folkhemmet*) in 1912 (Kjellén 1915, 53) and Myrdal would eventually be one of the leading architects behind the Social Democratic construction of “The People's Home” of the 1930s and forward.

Gustafsson (1989, 145) writes of Myrdal's high school years: “As of yet [Myrdal's] views were not distinctive but to a large extent resembled the mixed national-conservative and intelligence-aristocratic opinions which could be found among the intellectual bourgeoisie youth of the time.” Jackson (1990, 45) quotes a high school essay entitled “Small Nations' Contributions to World History” in which Myrdal stated that “the state goes before the individual” and that long-range planning of Swedish political and economic development was needed.

In 1918, Myrdal entered Stockholm University as a law student. Law did not please him, although it “gave him enhanced understanding of the importance of

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50. Both Gustafsson and Jackson draw upon Andersson (1989); Gustafsson later (1998) wrote a portrait of Myrdal which will soon appear in a book edited by Christina Jonung and Ann-Charlotte Ståhlberg. Myrdal never wrote an autobiography but on several occasions summarized his own development (see, e.g., Myrdal 1969, 10) and in 1973 published a book entitled *I stället för memoarer* (the English title of the book was *Critical Essays on Economics* but the Swedish title re-translated into English would be *Instead of Memoirs*). On the other hand, the literature on Myrdal is huge. A concise portrait of Myrdal is found in Streeten (1987) and the contents and reception of Myrdal's major works are summarized in Barber (2008); both Streeten and Barber had been collaborators of Myrdal. A collection of Myrdal's works is available in Appelqvist and Andersson (2005) and another book on Myrdal by Appelqvist is on its way. A short exposition of Myrdal in public debate is available in Carlson and Jonung (2006).

institutional conditions for society's development" (Gustafsson 1989, 146). His basic outlook was however still the same. Jackson quotes at length from a speech on "The Crowd and the Intelligent" ("Massan och Intelligensen"), which Myrdal gave at a student club. Myrdal called for a "party of the intelligent" to direct Swedish politics in the coming era of mass politics (democracy). This party of the intelligent would make use of scientific techniques to manipulate and control the "irrational" masses and it would be able to "defend the national interest against selfishness and class-egoism." Jackson (1990, 46) concludes that this speech "reflected Myrdal's youthful infatuation with the Nietzschean idea of the superman,<sup>51</sup> as well as his enthusiasm for Kjellén's ideas," and continues:

The enfant terrible exaggerated his arguments for the sake of debate with his fellow students on this occasion, but a strong element of elitism would remain in Myrdal's thought in the years ahead. Even after joining the Social Democrats in 1931, he would emerge as a strong advocate of social engineering and planning, working closely with intellectuals from other political parties on royal commissions and parliamentary committees. Like the young Walter Lippmann in the United States and Sidney and Beatrice Webb in Britain, Myrdal would combine an interest in social welfare with a belief that experts had a key role to play in shaping public policy and in stabilizing parliamentary democracy. (Jackson 1990, 49)

During most of the 1920s Myrdal would stay away from politics (except for writing political articles on behalf of his conservative father) and focus on his academic career. He had met Alva Reimer, his future wife, in 1919. She had Social Democratic leanings and exerted a powerful influence on him "toward a greater concern for social reform and equality" (Jackson 1990, xv). She also tilted him in a different direction when she encouraged him to read economic literature and procured Gustav Cassel's *Theoretische Sozialökonomie*.<sup>52</sup> Soon he enlisted with Cassel at Stockholm University where his elitist ideas were not dampened. "Admission to Cassel's elite circle of students gave Gunnar Myrdal a sense of being chosen for leadership and recognized as what Swedes of that day called an 'intellectual aristocrat'" (ibid., 53). According to Jackson, Myrdal's views were for a while in the mid-1920s, like Cassel's, "essentially liberal":

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51. Sissela Bok (1991, 72-73) points to her father's "Nietzschean faith in himself as different." "He saw his talent as releasing him from ordinary norms of responsibility toward others."

52. Interviewed by Lars Jonung in 1986, Myrdal recalled: "At first I read it [Cassel's book] completely uncritically. That's how it began" (Myrdal 1987, 327).

These ideas were, however, continually criticized both by Alva and by others in their circle who were concerned with the problems of the poor. [...] Challenged by Alva's questions and criticisms and stimulated by a brilliant circle of young Swedes who delighted in debunking the received wisdom, Gunnar Myrdal developed into a most unconventional economist. (Jackson 1990, 55)

In his economic studies, Myrdal was mainly wrestling with theoretical issues and in 1927 defended his dissertation on *Prisbildningsproblemet och föränderligheten* (*Price Formation and Economic Change*). In 1928 he started giving lectures aimed at criticizing classical and neoclassical economics. Two years later, this critique had grown into a book, *Vetenskap och politik i nationalekonomien*, which many years later was published in English as *The Political Element in the Development of Economic Theory* (1953). Among Myrdal's sources of inspiration, when he "sought to expose the hidden value premises and political goals of economists through a study of the history of ideas" (Jackson 1990, 56), were Max Weber and the Swedish philosopher Axel Hägerström. Myrdal himself (1953, vi) characterized the book as "a frontal attack on the dogmas of the older generation." Jackson writes that it was a kind of catharsis for Myrdal, liberating him from the conservatism of his father as well as the "naïve objectivism" of his teacher Cassel; nonetheless, at the end of the 1920s, Myrdal "still lacked a stable political viewpoint" (Jackson 1990, 58).

Yet remarks by Myrdal about the 1920s, from his later work *Objectivity in Social Research* (1969) are at variance with Jackson's characterization. Myrdal says that the older generation of economists in Sweden were "broadly of the *laissez-faire* variety" and continues:

Like most economists of my generation in Sweden, I had different views on policy. To begin with, we were of an interventionist mind. We wanted, for instance, to plan public action in order to mitigate the widespread unemployment during the depression after the end of the First World War. We had, then, to refute our elders. (Myrdal 1969, 7)<sup>53</sup>

A series of events would induce Myrdal to take strong positions. In 1929–30 Gunnar and Alva spent nine months in the United States. As they arrived in the U.S., the Wall Street stock market collapsed and the Great Depression unfolded. A couple of years later, in 1932, Social Democrats came into power in Sweden; they would hold on to it for 44 consecutive years. These dramatic events shaped Myrdal

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53. This statement is a bit curious, however, since Myrdal began his economic studies after the depression that came after the First World War.

into a Social Democratic politician and, eventually, an institutionalist economist, two interconnected roles that would make him a celebrity in Sweden and the world.

In October 1929, the Myrdals, having been awarded fellowships from the Rockefeller Foundation, left for the United States. In his book *Against the Stream* Myrdal recalls:

When my wife, Alva Myrdal, and I first came to America at the end of the Twenties for a year as Rockefeller fellows, the ‘wind of the future’ was institutional economics. This was then the New Economics, as I remember a collection of essays was called. The approach was conceived to be in line with three great American economists: Veblen, Commons and Mitchell, of whom the latter two were still living and active. [...] At that time I was utterly critical of this new orientation of economics. I was in the ‘theoretical’ stage of my own personal development as an economist. (Myrdal 1974, 6).

Nonetheless, Myrdal was eager to know what was going on among U.S. economists, as can be seen from a letter to Cassel dated October 29, 1929:

What I shall do here is above all to get a grip on ‘the American trend of economics’. I want to find out about the underlying economic theory and methodology, especially among all these young people who are so critical of our old theory.<sup>54</sup>

The Myrdals were not committed to any single university but travelled around the U.S. Gunnar met with institutionalists Wesley Mitchell and John Maurice Clark at Columbia and John Commons at Wisconsin. He found Mitchell “well-informed, brilliant and earnest” (letter to Cassel, October 29, 1929) and reported that Commons “taught me to bowl and also tried to get me to understand the legal foundations of capitalism, the former with much greater success than the latter” (letter to Gösta Bagge, April 7, 1930).<sup>55</sup> In another letter to Cassel (March 24, 1930), Myrdal mentioned topics for lectures he was to give in Madison, Wisconsin, and wrote by hand in the margin: “Next day ‘American institutionalism’.” It thus seems as if Myrdal gave a lecture on American institutionalism in Commons’s backyard! Once back in Sweden, Myrdal wrote (letter to Cassel, February 7, 1931) that he was “in process of thinking out a lengthy book which will deal with

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54. Letter in the Myrdal file at the Labour Movement Archives and Library in Stockholm.

55. One detail worth mentioning is that in an interview (by Benny Carlson, January 3, 1982) Myrdal labeled Gösta Bagge, for whom he worked on a cost of living study in the late 1920s, as an institutionalist economist.

development, the economy and institutions. It sounds mystic but will probably be quite wise if I can only think it through.”<sup>56</sup>

Myrdal eventually became—alongside John Kenneth Galbraith—the world’s most renowned institutional economist. One would expect that his early acquaintance with U.S. institutionalism might have had something to do with this. Myrdal however claimed that his development towards institutionalism “had nothing to do with American Institutionalists. [...] I’m just my own institutionalist in a way” (Angresano 1997, 163).

Myrdal’s explanation for his conversion to institutionalism is this: During their 1929–30 study tour he and Alva were confronted with America’s social problems and became democratic socialists. “It was in America that we became politically active Social Democrats” (Myrdal 1982, 143). Back in Sweden he first devoted himself to monetary theory but soon became involved in the construction of the Social Democratic welfare state. The final step came when he started working on *An American Dilemma* in 1938. The conclusion he arrived at, summarized in an article on “Institutional Economics,” was this: “All the ‘non-economic’ factors—political, social, and economic structure, institutions and attitudes, indeed all interpersonal relations—have to be included in the analysis” (Myrdal 1978, 772).

Myrdal’s conversion to institutionalism has been subject to considerable attention among researchers. A chronological odyssey through some of their conclusions may be justified.

Alan Gruchy (1972) does not dig into Myrdal’s conversion but positions his holistic “economics of integration” within the neo-institutional school together with Clarence Ayres, John Kenneth Galbraith, and Gerhard Colm.

Erik Lundberg (1974, 472-473) says that for a short period between 1925 and 1933 Myrdal was a pure theorist, but adds a reservation: “During his period as an economist of ‘pure theory’, Myrdal signaled his dissatisfaction with the results of the isolated theoretical reasoning and indicated that in the future economics should move in the direction of ‘institutionalism?’”

James Angresano (1981, 42, 151, 158, 161) basically accepts Myrdal’s story, but divides his development into three stages: Myrdal I (1915–33), II (1933–38) and III (1938–) and considers that the work on *An American Dilemma* from 1938 onwards signified a breakthrough in Myrdal’s development “although the seeds of the basic ideas were prevalent in Myrdal I and II.” Angresano also concludes that Myrdal “is not simply an institutionalist in the American tradition” but “has developed his own brand of institutionalism which, although closely akin to that of

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56. All letters in the Myrdal file at the Labour Movement Archives and Library in Stockholm.

the American institutionalists, embodies his own methodology and conception of institutional change.”<sup>57</sup>

Kurt Dopfer (1988, 227-228) takes a somewhat ambiguous view: Myrdal started off as a traditional monetary economist, and it was only during his grappling with practical problems that he found conventional economics to be too narrow. At the same time his analysis was more empirical from the start, expressing “a deeper understanding of the behavior of economic agents and of the institutions in which they operate.”

Ina Kay Van Loo (1989, 9-10, 21) accepts the picture of two Myrdals. “As a young man, he was a theoretical Keynesian economist; later he became an institutional economist.” She suggests two explanations of his becoming an institutionalist: Through his personal experiences in diverse fields of activity and diverse parts of the world the importance of diversity of customs dawned upon him. Through his interest in the economic development of different nations he became aware of the scale and complexity of problems and therefore came to adopt a broader approach.

Bo Gustafsson (1989, 149) notes that as early as in his criticism of the free trade doctrine in *The Political Element*, Myrdal displays “the signs of an institutionalist economic theory.”

According to Gilles Dostaler (1990, 216) we need to be suspicious of all assertions to the effect that Myrdal’s work can be divided into two phases. Myrdal’s early work already contained many of the elements which were to figure in his subsequent institutionalist works. After examining these early works, Dostaler declares: “Thus, the oft-mentioned, so-called, clear-cut dividing line in Myrdal’s intellectual development does not exist.”

Walter Jackson (1990, xv, 45, 57, 61-62, 105) contends that on his arrival in the U.S., Myrdal “was particularly trying to understand the institutional economists” and when he met Commons he “was much more receptive to institutional economics than he had been at the start of his year in America.” Many events and individuals lay behind this increased receptiveness. In Jackson’s view the dumbfoundedness of classical economics in face of the Great Depression turned Myrdal “towards an interest in social engineering, institutional economics,

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57. In a second book on Myrdal, Angresano (1997, 33, 42-46, 57-58, 67, 85) modifies his periodization somewhat: the years 1929–1933 are seen an overlapping phase between Myrdal I and II, a phase when Myrdal at the same time appeared as “anti-institutionalist” and advocated “an analysis of society’s ‘institutional set-up.’” Although Myrdal had met leading institutionalists in 1929–1930 he “would remain faithful to many aspects of the neoclassical perspective for a few more years, and defend this perspective against the rising tide of institutional economics in America.” At the same time some institutionalist seeds were growing in his mind. According to Angresano one can at the end of the day conclude “that GM III is more of an institutionalist in the strict sense of the term than the American institutionalists, for he has been willing to advocate institutional reform.”

and interdisciplinary social science research.” Jackson believes that the influence of Alva impelled Gunnar “toward practical, interdisciplinary research”: “Through her he met many more psychologists and sociologists than he otherwise would have.”

Allan Carlson (1990, 41-42) points out that *The Political Element* represented “a significant step in Gunnar Myrdal’s development toward a multidisciplinary involvement in economics, political science, social psychology, and sociology.” One of Myrdal’s points in the book was precisely “the emphasis on the relationship between economic and institutional changes.” “However, prior to the autumn of 1929 and despite some early interest in social-economic and institutional problems, both Alva and Gunnar Myrdal remained ‘academics’ in the strict sense of the word. Gunnar’s work was principally centered on theoretical economics.”

Philippe Adair (1992, 166) cites Myrdal’s encounters with Mitchell and Commons. “Though Myrdal sympathized with the institutionalists and shared some of their criticisms of orthodoxy, he was not won over to their ideas”; he was repelled by their naive empiricism.<sup>58</sup> In Adair’s (1992, 168, 170-71) opinion, further developments took the form of a convergence in which on the one hand the institutionalists evolved their doctrine and on the other Myrdal imbibed “a definite holistic approach that stressed institutional factors and the interdisciplinary nature of the social sciences.” Myrdal’s development took place in several stages: by 1933 he had moved far enough with regard to the role of value-judgments for it to be possible to speak of “the first feature of his passage from a theoretical phase to an institutional one.” The next step was taken in 1938 when he embarked on the project of the American “Negro problem.”

Paul Streeten gives a concise exposition of Myrdal’s own account:

At first a pure theorist, Myrdal’s year in the United States as a Rockefeller fellow...turned his interest to political issues. ... His involvements in Swedish politics between 1931 and 1938 turned him from a theoretical economist into a political economist and what he himself describes as an institutionalist. (Streeten 1992, 112)

Jan Olof Nilsson (1994, 141) notes that Myrdal to begin with was critical of institutionalism but at the same time attracted to some parts of it, since institutionalists were critical of neoclassical economics and stressed that economists should take interest in the whole social fabric. “During his time in the USA

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58. Myrdal (1972, 281-282) writes that the methodological approach of the older American institutionalists “in fact remained considerably more naive in this respect than it was among the economists who held fast to the classical tradition.” “As a result of their remarkably naive empiricism they forced me to become fully conscious of the need for a rational method of introducing value-premises into economic research.”

Gunnar became ever more positive towards institutional economic theory, especially after his visit to University of Wisconsin.”

William Barber (2008, xiii, 15, 134-135, 166-167) concludes that Myrdal in the early stages of his career—in the 1920s and early 1930s—was “hostile to what he understood an institutional economics to be.” He developed “an enthusiasm for an institutional approach” in *An American Dilemma* and this approach was fully developed in *Asian Drama*.

There is thus among Myrdal scholars a range from unreserved acceptance of Myrdal’s story (Streeten) to serious doubts (Dostaler).

In 1932, Myrdal wrote an article on “The Dilemma of Social Policy” in which he argued for economic planning and social engineering, for “an intellectual and coldly rational” social policy ideology (Myrdal 1932, 25), an article which “united all the major themes of Gunnar Myrdal’s early work [and] signaled the beginning of his career as political activist” (Jackson 1990, 71). In 1932, he also joined the Social Democratic Party, which won the elections in the fall of that year. Myrdal drafted the new government’s first budget and wrote a memorandum to the budget on business cycles and public finance which formed the theoretical basis for the government’s countercyclical crisis policy. In 1934 Myrdal succeeded Cassel as professor of economics and finance at Stockholm University—already in his inaugural lecture he advocated a planned economy—and was elected to the Swedish parliament, the *Riksdag*, in 1936. In just a few years Myrdal had established himself as leading architect behind a new Swedish “People’s Home.” This position was strengthened not least by his and Alva’s 1934 book *Kris i befolkningsfrågan* (*Crisis in the Population Question*). In a stroke of genius the Myrdals captured this question from the conservatives and used it for their own purpose, as (to use the words of Eli Heckscher) “the crowbar with which to turn obdurate Swedish society upside-down” (Carlson 1994, 134). In Gustafsson’s (1998, 63) characteristic the book contained no element of “speculative and radical socialist ‘utopism’” but was rather focused on solving everyday problems. Anyway, “[t]he architecture of the Swedish welfare state was thus put in place under the smokescreen of the population argument” (Barber 2008, 59).<sup>59</sup>

Myrdal continued full steam ahead in politics until 1938 when the Swedish government announced a “reform pause” at the same time as the Carnegie Corporation invited him to conduct a study on the American race issue. Jackson (1990, 81) summarizes this phase of Myrdal’s career: “From 1932 to 1938 he had involved himself in political life as an economic planner, author, public speaker,

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59. Yvonne Hirdman, in her book *Att lägga livet till rätta* (*Adding Life to Grips*) (2010, 98), characterizes Gunnar and Alva Myrdal as “‘ideal types’ for Swedish social engineering: intellectual, radical and ‘modern.’”

member of royal commissions, member of Parliament, and director of the Bank of Sweden.” In Timothy Tilton’s words, “there can be no doubt about Myrdal’s impact upon Swedish social and economic policy; wherever one looks—family policy, countercyclical policy and economic planning, housing, the school system, agriculture, sexual enlightenment, women’s issues—the imprint is visible” (Tilton 1992, 36).

Myrdal was a democratic socialist. According to Streeten, his approach was “one of neither Soviet authority and force nor of capitalist laissez faire but of a third way” (Streeten 1992, 127). He regarded himself as an heir of Utopian rather than Marxist socialism. In an obituary, socialist Michael Harrington wrote:

He was also quite proud of not being a Marxist. “We Swedes have socialized distribution, not production,” he liked to say. He would insist that he was an heir of the 18th Century, not the 19th, of the Enlightenment rather than of Marxism. At the same time, he addressed me as “brother.” (Harrington 1987)

During the late 1930s and early 1940s Myrdal directed his energy into *An American Dilemma: The Negro Problem and Modern Democracy*, which helped “destroy the ‘separate but equal’ racial policy in the United States”; Myrdal thus “literally left his mark in a footnote to history—the famous footnote 11 to the United States Supreme Court’s 1954 ruling that segregation in public schools was unconstitutional” (New York Times 1987).<sup>60</sup> Barber (2008, 78) consequently designates the book as “one of the few works of scholarship to alter the course of history” and Gustafsson (1998, 625) states that Myrdal was now acknowledged as “one of the greatest social scientists” of his time. The book demonstrated how Myrdal’s approach differed from Marxist socialism: “Myrdal’s rejection of Marxist determinism and his insistence that the moral ideas had both an authentic autonomy and the power to move events made him an obvious target for the ideological left” (Barber 2008, 78).

Back in Sweden in 1944 Myrdal issued *Varning för fredsoptimism* (*Warning Against Postwar Optimism*), re-entered into the *Riksdag*, and became chairman of the powerful commission for postwar planning. Another battle over economic planning erupted. When the war ended and Social Democrats in 1945 formed a new government, Myrdal was appointed Minister for Trade and Commerce. He got involved in several tricky decisions—a trade and credit agreement with the Soviet

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60. David Henderson (2008) notes that in *American Dilemma* Myrdal “showed that Franklin Roosevelt’s economic policies had badly hurt blacks.” Myrdal singled out two New Deal policies in particular: restrictions on agricultural output and the minimum wage.

Union and a revaluation of the Swedish currency—and resigned in 1947. This was the end of his immediate involvement in Swedish politics.<sup>61</sup>

Myrdal's career now took a global turn. He became Executive Secretary of the United Nations Economic Commission for Europe in Geneva for ten years and devoted the following ten years to his magnum opus *Asian Drama: An Inquiry into the Poverty of Nations*, said to be “probably the post WW2 most ambitious effort to clarify the institutional preconditions of modernization” (Gustafsson 1998, 626). The toil behind the book exacted a heavy toll and Myrdal sometimes despaired: “What in hell am I doing and when will it ever be ready? Writing a book like that is like standing in the trenches of the First World War up to your knees in mud” (Bok 1991, 289). From 1960 Myrdal was professor of international economics at Stockholm University and soon also founded and headed the Institute for International Economic Studies at Stockholm University.

In his later days Myrdal somewhat revised some of his earlier positions. An early adopter of Keynesianism (or perhaps even a forerunner),<sup>62</sup> he turned somewhat against Keynesian policies just as the economics profession at large was accepting it. Myrdal suggested that in practice, such policies were often inflationary and tended to hurt the poor (New York Times 1987). He also criticized several facets, not least bureaucratization, of the Swedish model built by Social Democrats, in a 1982 book titled *Hur styrs landet? (How Is the Country Governed?)*. However, he defended himself against accusations of having become conservative and invoked his earliest influences:

From my earliest childhood I have imbibed the tough work ethic from the people of Dalarna, which I have always myself lived by, but also a lot of their personal obstinacy and especially their aversion against bureaucrats, who at that time still in this part of the country were associated with the rebelliousness against the king's bailiffs in the old days. (Myrdal 1982, 11)

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61. About this phase of Myrdal's life, see Appelqvist (1999; 2000).

62. The Stockholm School of Economics, to which Myrdal belonged, advanced alongside Keynes in the early 1930s (see Jonung 1991). Barber's comment upon Myrdal's work on monetary theory goes like this: “If his contribution had been available to readers of English before 1936 [when Keynes's *General Theory* appeared], it is interesting to speculate whether the ‘revolution’ in macroeconomic theory of the depression decade would be referred to as ‘Myrdalian’ as much as ‘Keynesian’” (Barber 2008, xi).

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## John F. Nash Jr.

by Daniel B. Klein and Ryan Daza

John Nash (1928–), was born in Bluefield, West Virginia. Nash's father was an electrical engineer and served in France during WWI. His mother studied at West Virginia University and was a schoolteacher (Nasar 1999, 26-27). His mother, recognizing Nash's awkwardness and brilliance, pushed him hard both socially and academically, making his education "a principal focus of her considerable energy" (ibid., 31, 33). Bluefield had the "highest per capita income in the state during the [19]30's and 40's and was home to a handful of millionaires" (Nasar 1994). Nash said of Bluefield: "[It] was not a community of scholars or of high technology. It was a center of businessmen, lawyers, etc. that owed its existence to the railroad and the rich nearby coal fields of West Virginia and western Virginia. So, from the intellectual viewpoint, it offered the sort of challenge that one had to learn from the

world's knowledge rather than from the knowledge of the immediate community" (Nash 1995).

Nash began studying mathematics in high school. Nash states that he was not the "best student" and was voted by his peers as the "most original" student (Nash 2002a). On originality, he states: "So there is something of that in my approach to mathematics. I have tended to think that the thing to do is to get away from what other people are doing and not to follow directly in anyone's recent work. I did that in game theory also. I brought in some alternative ideas, which, to some extent, are competitive" (ibid.). During his last year of high school he took supplementary mathematics courses at the Bluefield College (Nash 1995). On learning during his childhood, Nash states:

I did have an appreciation of maths and science as a child, and even at elementary school I would like to do more in mathematics than the other students were doing in one way or another. So I did have that at an early stage. Like maybe almost comparable to Mozart in music. (Nash 2004)

On his early formal education, Nash stated: "I...did electrical and chemistry experiments at that time. At first, when asked in school to prepare an essay about my career, I prepared one about a career as an electrical engineer like my father. Later, when I actually entered Carnegie Tech. in Pittsburgh I entered as a student with the major of chemical engineering" (Nash 1995). Nash found chemistry unchallenging and, with encouragement from the Carnegie faculty, decided to switch majors and study mathematics (ibid.).

Nash took one elective course in international economics taught by Bert Hoselitz. Nash reflected: "[A]s a result of that exposure to economic ideas and problems, [I] arrived at the idea that led to the paper 'The Bargaining Problem' which was later published in [*Econometrica*]. And it was this idea which in turn, when I was a graduate student at Princeton, led to my interest in the game theory studies there which had been stimulated by the work of von Neumann and Morgenstern" (Nash 1995). Nash (2004) says that Hoselitz, an "Austrian economist" of a "different school than typical American or British," was influential in his development.

After graduating from Carnegie and serving there as an instructor in 1950, as a consultant at RAND (Nasar 1994), and as an instructor one year at Princeton University, Nash took an instructor position in mathematics at MIT in 1951 and remained there until he resigned in 1959 when his health deteriorated (Nash 1995). At MIT, Nash met his future wife Alicia when she took his course in advanced calculus (Nash 2002b). After conquering his health issues, Nash says he "began to intellectually reject some of the delusionally influenced lines of thinking which

had been characteristic of my orientation. This began, most recognizably, with the rejection of politically-oriented thinking as essentially a hopeless waste of intellectual effort” (Nash 1995). Nash’s biographer Sylvia Nasar (1994) noted that when Nash “got tired of mathematicians, he would wander over to the economics department [at MIT] to talk to Mr. Solow and another Nobel laureate, Paul Samuelson.”

Nash won the Nobel Prize in economics in 1994 with John Harsanyi and Reinhard Selten for “pioneering analysis of equilibria in the theory of non-cooperative games.” Nash was credited with introducing “the distinction between cooperative games, in which binding agreements can be made, and non-cooperative games, where binding agreements are not feasible. Nash developed an equilibrium concept for non-cooperative games that later came to be called Nash equilibrium” (Royal Swedish Academy of Sciences 1994).

Throughout his career Nash has said very little about policy and politics, but one institution that he has treated is money. In 2002, Nash wrote an article, “Ideal Money,” that Charlie Holt described as a “monetary arrangement with a fresh slate based on indices of producer goods prices” (Holt 2002, 2). In it Nash criticizes the “Keynesian psychology in relation to the history of the influence of Keynesians on the practical characteristics of national currencies” (Nash 2002c, 4). He wrote:

I wish to present the argument that various interests and groups, notably including Keynesian economists, have sold to the public as a quasi doctrine that teaches, in effect, that “less is more” or that (in other words) “bad money is better than good money.” Here we may recall the classic ancient economics saying called *Gresham’s law*: “The bad money drives out the good.” This saying of Gresham’s is of interest here mainly because it illustrated the old, or “classical,” concept of *bad money*, which is not in line with the thinking of Keynesian economists. (Nash 2002c, 4)

[L]et us define *Keynesian* to be descriptive of a school of thought that originated at the time of the devaluations of the pound and the dollar in the early 1930s. Then, more specifically, a Keynesian would favor the existence of a manipulative state establishment of central bank and treasury that would continuously seek to achieve “economic welfare” objectives with comparatively little regard for the long-term reputation of the national currency and its associated effects on the reputation of financial enterprises domestic to the state. And indeed, a very famous saying of Keynes’s was “...in the long run we will be dead...” (ibid., 5)

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

In 1931, [the gold] standard finally failed to be supported any longer, and this happened at a time when the London government had shifted to the left politically and at a time of global economic stresses. (ibid., 5-6)

A *debt pardoner* is an agency or authority that can pardon the “sins” of the overindebted or of those who otherwise would go bankrupt. ... National pardoners will become ineffective within the area of the euro unless they secede from the euro currency bloc. Instead, pardoning will depend on the actions of a sort of “Holy Roman Emperor” in Frankfurt, which would be able to generally pardon all of the debt-sinners of the euro-money bloc. (ibid., 6)

[T]he standardization of the value of the international money unit, would remove the political roles of the “grand pardoners,” the state authorities that can forgive debts of debtors, including, in particular, those of themselves. (The national debt of a state can, in principle, be trivialized by a sufficient amount of inflation.) (ibid., 9)

If such an objective and nonpolitical standard were used in the Frankfurt of a euro-money system, then there would not be a “Holy Roman Emperor” (although of a collective structure) with the power to pardon or not pardon the debt-sins of all Europeans debtors (of the zone) in general. Thus, there would be nothing to argue about, such as whether or not those most desirous of Keynesian pardoning should be favored with a general pardoning of past debts by the fiat of inflation. (ibid., 9)

[T]he fundamental principle remains that if a political basis existed for changes in a standard index, it is not unlikely that a form of corruption would appear. (ibid., 10)

At the end of the article, Nash explains:

The above text originally derives from my outline for the lectures given at various specific locations of the European School of Economics in Italy in October 1997. Subsequent to that time, after consulting with some of the economics faculty at Princeton, I learned of the work and publications of Friedrich von Hayek. I must say that my thinking is apparently quite parallel to his thinking with regard to money and particularly with regard to the nontypical viewpoint regarding the

function of the authorities that in recent times have been the sources of currencies (earlier coinage). (ibid., 11)

In the following years, Nash frequently delivered a lecture titled “Ideal Money and Asymptotically Ideal Money” (see Nash 2003) building on the earlier article. A report on a lecture by Nash at Brown University contains this account of his comments on the idea of a global currency:

Nash responded with caution to the suggestion from an audience member that a system of currencies approaching perfect stability would ultimately produce a system with only one world currency.

“There’s nothing wrong with it,” Nash said. But he added, “In practice, I’m a little distrustful of the politicians at the level of the United Nations and elsewhere,” who would be in charge of administering a world currency. (Zuckerman 2005)

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## Douglass C. North

by Daniel B. Klein and Ryan Daza

Douglass C. North (1920–) was born in Cambridge, Massachusetts. His father, a WWI veteran, was a manager at an insurance company. The nature of his father’s job made moving around necessary. As a result, North went to schools in Canada, Switzerland, Connecticut, and New York City during the Depression (North 1994). North reflected on his early life:

Our family life was certainly not intellectual. My father had not even completed high school when he started as an office boy working for the Metropolitan Life Insurance Company, and I am not sure that my mother completed high school. Nonetheless, she was an exciting person, intelligent, intellectually curious, and she played an important part in my intellectual development. (North 1994)

North says of his college experience at the University of California at Berkeley: “While I was there my life was completely changed by my becoming a Marxist” (North 1995, 252). He continues: “Marxism was attractive because it appeared to provide answers to the pressing questions of the time, including the Great Depression that we were in—answers missing from the pre-Keynesian economics that I was taught in 1939–1940” (ibid.). In an interview conducted by Karen Horn, North remarks: “I drifted into being a Marxist. Not a Communist, a Marxist. That’s a big difference” (North 2009, 160). North continues: “I read lots of Marx. That was a big influence on my life, and it still is. I’m not a Marxist any more, but still, he had an enormous impact. Anyway, I went through school and thus became a leader in left-wing activities. Then, World War II came along” (ibid.).

In 1942, upon graduating and because of his “strong feeling that I did not want to kill anybody” (North 1994), North joined the Merchant Marine, serving as a navigator. He reflected: “What the war did was give me the opportunity of three years of continuous reading, and it was in the course of reading that I became convinced that I should become an economist” (ibid.).

After the war, North returned to Berkeley to pursue a Ph.D. in economics. About those years, North remarks:

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The Keynesian revolution came on when I was a graduate student. After the war, Keynes was the big thing. I went through all that, I learnt Keynes. That was useful. Remember, I was a semi-Marxist. So I sort of liked Keynes, because that was at least a step in the right direction. (North 2009, 168)

North wrote his dissertation on the industry that his father had a career in: “[M]y Ph.D. dissertation was a muckraking attack on life insurance companies, something that my father wasn’t enthusiastic about, to put it mildly” (North 2009, 162).

In 1950, North, age 30, took a position at the University of Washington in Seattle. Arriving the same year was Donald F. Gordon. North has repeatedly credited Gordon for teaching him economics and influencing his outlook (e.g., North 1995). In the interview with Horn, North said:

[Gordon] was a good economist, and we played chess every day from 12 to 2 p.m. I beat him at chess all the time, and he taught me economics. I knew so little economics that, when I graduated, I had just memorized all the right answers for the exams and reproduced them. I didn’t know any economics, not even simple price theory. ... He had a very powerful influence on my life, because he really taught me economics. And that also was the last step in my getting rid of Marxism. As I re-learned theory, I became a very rigid neoclassical, Chicago type economist. Typically, there is nothing worse than when you have lost your way and you pick up the next thing. In my case, this made me a right-wing reactionary. (North 2009, 164)

North continued at UW in Seattle from 1950 to 1983, and then, from 1983, was professor at Washington University in St. Louis, where he is now emeritus. He was editor of the *Journal of Economic History* for five years and president of the Economic History Association in 1972. His most important works include *The Economic Growth of the United States 1790 to 1860* (1961), *The Rise of the Western World: A New Economic History* (1973, with Robert P. Thomas), *Structure and Change in Economic History* (1981), *Institutions, Institutional Change, and Economic Performance* (1990), *Understanding the Process of Economic Change* (2005), and *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (2009, with John J. Wallis and Barry Weingast).

North was one of two economic historians awarded the Nobel Prize in 1993, the other being Robert Fogel, “for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic

and institutional change.” The Nobel Prize website ([link](#)) says that North “[s]hed new light on the economic development in Europe and the United States before and in connection with the industrial revolution. He emphasized the role of property rights and institutions.”

Ideologically, North started on the radical left and moved particularly during his late twenties or thirties; Fogel, coincidentally, was similar. Fogel has moved roughly to the American Democratic center, and North has perhaps moved further. North’s greater classical liberalism may be reflected in his high praise for F. A. Hayek and Ronald Coase, his status as Senior Fellow of the Hoover Institution at Stanford University, his participation in activities with the Cato Institute (e.g., North 1992), and his co-authorship of *The Economics of Public Issues* (1st ed., Miller and North 1971; 18th ed., Miller, Benjamin, and North 2013), a text that pours cold unintended-consequences water on numerous, often-hallowed government interventions. North’s scholarship has a drift that is quite classical liberal, emphasizing, among other things, the importance of property rights and the dangers and pathologies of government power.

North has perhaps never sounded more like a Milton Friedman libertarian than in “Private Property and the American Way,” published by *National Review* as a “July Fourth Essay” in 1983. The piece provides both a sweeping narrative of the United States and a primer on the self-correcting virtues of voluntary processes, notably free-market forces, as compared to politics and governmentalized social structures. North wrote:

In very general terms, the benefits of using the political process to modify property rights have risen enormously as the government has come to occupy a key role in the whole economic process. Not only does government account for more than a quarter of gross national product, but government rules and regulations—federal, state, and local—are ubiquitous in modifying property rights. And as the benefits have risen, the costs of using the political system have declined. The regulatory commission and the government agency are key decision-makers now. It is no longer necessary to incur the prohibitive costs of influencing a majority of both legislative bodies as well as the executive in order to change property rights and redistribute wealth and income.

To be more specific, the benefits have risen because the income of individuals, the profits of firms, the wages and benefits of trade unions, the prices of agricultural goods, etc., are being decided daily within the governmental process. This is so because 1) government taxes take a major portion of society’s income and wealth; 2) government is a major purchaser of goods and services; 3) transfer payments

that shift income from one individual to another amounted, for example, to more than \$86 billion in 1972–73; and 4) finally, changing taxes, rules, and regulations alter property rights that affect the income and wealth of every individual and group in the society. In this situation, access to governmental decision-making is essential.

The costs have fallen because the system of checks and balances has been replaced in many areas by government agencies and regulatory commissions. The cumbersome decision-making process envisioned by Madison has now been replaced by an individual or a commission.

Moreover, the rise in benefits and the fall in costs are not uniform throughout the system. The political structure favors large economic units (giant firms, trade unions, farm organizations) over small; dedicated single-purpose groups (passionate minorities) over more diffuse interests; and producers over consumers, to name but a few of the favored and disfavored groups.

[... T]he consequences of this shifting emphasis of decision-making from the market to government can be...briefly summarized. The most distinctive feature is the effort of all comers to attempt to get income and wealth at the expense of someone else. The farmers are subsidized by a price-support program and by various soil conservation programs, which go not only to the farmer but to the wealthy who buy farms as tax shelters. Middle-income groups are subsidized...with...higher education and lower tax rates. The rich man had until recently his oil depletion allowance and still has his tax-exempt securities, and the poor receive that massive transfer of payments through old-age survivors insurance, food stamps, Medicare, Medicaid, and subsidized housing. Even a casual appraisal of the legislation passed at any level will reveal that the predominant trait of a good deal of it is redistribution of wealth and income. It may have other objectives as well, or the other objectives may simply be a disguise for efforts to get a slice of the pie at the expense of someone else. ...

I see no evidence that assures me that either equity or efficiency will be a victor in this evolving structure of public property rights. When we look analytically at the distribution of personal income in the United States today, we find a rather surprising result in the face of what we have described above. We find that while the distribution of income has been altered somewhat in the past forty years, the alteration is quite modest when compared to the efforts that have

been directed. The top 20 per cent of income receivers have lost some percentage of income and the bottom 20 per cent of income receivers have gained, primarily as a result of in-kind transfers. Middle-income groups have gained modestly. This modest result is not hard to explain. The real reason is simply that cross-hauling has been occurring at a great rate. If the rich are being subsidized in one direction, they are subsidizing other groups in still another direction. And so it goes with every income class.

Does this mean that the consequences of the massive effort at redistribution have little or no effect on the economy? Not at all, just the reverse. The net effect may have been much smaller than one might first imagine, but the dead-weight effect on the economy is something else again. More and more of the resources of the society are being tied up either in devoting time and effort to redistributing wealth and income in one's favor or in defensive measures by groups to prevent wealth and income from being redistributed away from them. As an ever-growing proportion of the resources of the society are devoted to these ends, they are withdrawn from productive effort. . . .

[T]here is no logical reason to expect the political system to produce a set of property rights that will resolve the basic dilemmas of our society. We are accustomed to thinking of the Declaration of Independence and the Constitution as simply a product of our Founding Fathers' supreme wisdom. In retrospect, the four million people in our society at the end of the eighteenth century appeared to have a relative super-abundance of wise and thoughtful people. But that is hindsight. At least, in part, it had to be accidental good fortune that provided the juxtaposition of the philosophical insights and the economic interests of those groups that came to power in the English Revolution of the seventeenth century and carried through the period of the formation of the United States in the eighteenth century. The implicit assumption of our current economic policymakers—that wisdom will prevail over narrower self interest of the groups competing in the political arena—is a declaration of faith. But the current restructuring of property rights via the political process provides no such comfortable assurance. (North 1983, 807-809)

North speaks of liberty as follows:

What are the implications of the foregoing analysis for individual liberty? From my perspective, individual liberty is inextricably en-

twined with the options—the alternatives—available to individuals in a society. By this definition individual liberty has been seriously eroded. The choices of occupations, the decision to hire, fire, or promote employees, the exploitation of natural resources, the establishment of new enterprises, the determination of quality standards for products, the disposition of one's earnings all are increasingly more circumscribed than in the past. Yet clearly, this is an incomplete specification of the issue. What have we obtained in return—greater economic security for individuals, a more desirable distribution of income, the reduction of environmental deterioration? Aside from the difficulty of agreeing about what is a desirable distribution of income, the assessment of these benefits (particularly as compared to hypothetical alternatives) would differ widely. I am somewhat skeptical about our successes in these directions. Yet obviously, we have experienced some degree of success. But the cost in terms of my definition of individual liberty has been substantial.

I would like to conclude on an even more sober note. Individual liberty is clearly a “good” in itself. But it is also an essential means to a desirable end. In a world of uncertainty, no one knows the correct path to follow, whether it is in the pursuit of economic well-being or other desirable objectives. But diversity—decentralized decision-making—assures the society that many alternative paths will be pursued and therefore raises the odds that success will be achieved. The varieties of creative talent and ideas that the individuals in a society possess must have ready and easy access to expression. Competition and decentralized decision-making contribute as much to that process as does equality of opportunity. Centralized decision-making, large-scale bureaucracy and monopolistic privilege operate in the reverse direction. The latter appears to me to be the path we are following. We are reducing our options with consequences that have foreboding implications for our long-run survival. (North 1983, 812)

Meanwhile, as for petition signing, North endorsed John Kerry for president in 2004 and opposed the George W. Bush tax cuts (Hedengren et al. 2010).

Horn asked North about his interaction and regard for Hayek, and he responded in rather superlative terms:

When I was at University of Washington in Seattle, I was very flattered when I once got a note from Hayek saying that he would like to come and talk with me. He had read *The Rise of the Western World* [North and

Thomas 1973], and he thought it was a very interesting book. He came to Seattle and spent two days with me. We had a good time and I really enjoyed him. But I wish I had known then what I have learned since, so that I could have appreciated his visit more appropriately. I had never read his stuff on cognitive science in those days. He still seems to me the greatest economist of the twentieth century, and by a long way. If you look for people who really want to try and understand the world, Hayek came closer to that ideal than anybody who has ever lived. (North 2009, 168)

North joined with Coase and Oliver Williamson in creating the International Society for the New Institutional Economics in 1997. North has said: “At that moment, Ronald Coase had a big influence on me” (North 2009, 169).

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## Bertil Ohlin

by Niclas Berggren

Bertil Ohlin (1899–1979), professor of economics and Nobel laureate in 1977, developed a social consciousness early on, both because of his mother’s involvement in assisting the poor and because of his going to school with less well-to-do children.

In the 1920s—also Ohlin’s twenties—he argued that the best method for helping the less fortunate was to increase economic growth: only by creating and sustaining conditions for higher production levels could living standards rise over the long term. He does not seem to have been very influenced by some radical contacts made in his early years (such as the British Fabians), although such influences were to matter later. Thus, he initiated his academic career in ideological agreement, at least on most issues of economic policy, with the leading Swedish economists of the day, Gustav Cassell and Eli Hecksher, who were devoted classical liberals. Heckscher helped Ohlin secure his first professorship at the University of Copenhagen when Ohlin was only 25 years old. Heckscher was also instrumental in Ohlin’s subsequent transfer, in 1929, to the Stockholm School of Economics (Heckscher’s own institution), where Ohlin was to remain.

An important reason for the attractiveness of classical liberalism among Swedish economists in the middle and end of the 1920s was the fact that a most severe economic crisis was gradually overcome by means of market-oriented measures. Between 1923 and 1929 the Swedish economy developed very well: prices were stabilized, unemployment fell, and GDP growth turned positive again. This was pointed out by Ohlin in a speech to the Copenhagen Student Association on February 14, 1926, where he voiced skepticism about government intervention and regulation (Larsson 1998, 42). In an interview in the newspaper *Ekstrabladet* on December 27, 1926, Ohlin asserted that market adjustments were instrumental for reducing unemployment (*ibid.*, 87). The task of government is primarily to facilitate

labor mobility and to ensure that social measures do not diminish the incentives of unemployed persons to look for work. A month later in the *Stockholms-Tidningen* newspaper, Ohlin wrote: “The great speed with which wages were adjusted in the new situation most importantly contributed to shortening the crisis” (ibid.). In a farewell speech to the Copenhagen Student Association, he thought it “nonsense” to view the unemployment problem as the most important social issue of the day: that problem would largely take care of itself through marked adjustments (ibid., 58).

The *Ekstrabladet* interview led to Ohlin being criticized in Sweden for exemplifying the dogmatic view of economists (ibid., 87). Moreover, the Danish daily *Social-Demokraten* and its writer Knud Korst criticized Ohlin on December 3, 1926 for being one-sided in his pro-market speeches. Among the things that Korst disliked were Ohlin’s advocacy of liberalizing markets, his critique of the wage policies of the labor unions (which Ohlin saw as the cause of unemployment; instead, he wanted wage rates to be more flexible), and his view of wealth accumulation as conducive to capital investment (ibid., 54).

But during Ohlin’s stay in Copenhagen, which lasted from 1925 to 1929, he began his ideological reorientation which connected his early social involvement to his observations on problems in the worldwide economic system. Fellow economist Lauritz Birck exercised considerable influence in this regard. Ohlin recalled:

I learned a lot from Birck. ... His disclosure of the shortcomings of the economic system and the great risks to many people of an uneven distribution of power made things clear to me which I had hitherto not paid much attention to. ... As I pointed out earlier, I had already, during my days in Lund, become interested in Rigano’s proposal for high inheritance taxes. Now I drew the conclusion that an increase in income taxes through steeper progression was also well motivated. (Ohlin 1972, 122-123)

Another figure having influence on Ohlin was Danish politician Peter Munch, whose “social radicalism” entailed higher taxation, redistribution, a social-reform plan to reduce differences in living standards, as well as nationalized unemployment and accident insurance.

But the single most important source for Ohlin’s change in ideology was John Maynard Keynes, especially with his book *The End of Laissez-Faire* (1926). Keynes argued for a new liberalism which would aim for both freedom and safety in life, and a prime method was government measures of various sorts: “Our problem is to work out a social organisation which shall be as efficient as possible

without offending our notions of a satisfactory way of life” (Keynes 1926, 53). Towards the end of the 1920s, Ohlin began to view his role as one of launching this new liberalism in Scandinavia—and this perception was reinforced by the ensuing worldwide depression. Ohlin agreed with Keynes that the depression showed the weakness of the free-market system. In his memoirs, Ohlin stated:

The view that the old “let-go liberalism” had outlived itself was further confirmed, when I read Keynes’s little book “The End of Laissez-Faire” the following year. In 1927 I wrote a few articles on “Liberalism at the Crossroads.” The development showed, more and more clearly, that one must accept the demand for “planned organization.” (Ohlin 1972, 180)

There were some early signs that Ohlin was not a firm classical liberal. As noted, he favored high inheritance taxes at an early age. Also, on April 26, 1925, he wrote an article in *Stockholms-Tidningen* which, probably for the first time, expressed his appreciation of the “new liberalism” of Keynes and other British economists in somewhat systematic terms.

In connection with the economic problems in the 1930s, Ohlin gradually came to accept not only active stabilization policies but also regulation of agriculture and workplaces. Keynes’s *General Theory* (1936) met with great approval, but Ohlin, together with other economists in the so-called Stockholm School, had actually preceded Keynes on several counts, e.g., by having focused on total demand and by having introduced uncertainty (as specified by Ohlin in a letter to the Keynes scholar Don Patinkin on January 6, 1976; see Larsson 1998, 98; cf. Ohlin 1972, ch. 13). One can also add that Ohlin’s general outlook on politics was perhaps conducive to a greater acceptance of economic planning: he was rationalistic and held academic thinking in high regard.

As for Ohlin’s political involvement, in 1934 he was elected chairman of the Liberal Youth Organization of Sweden, in 1938 he was elected Member of Parliament, and in 1944 he became leader of the Liberal Party—a position he was to hold for 23 years. There are signs that Ohlin’s return to Stockholm from Copenhagen was partly motivated by a desire to become involved in politics. In an April 1929 letter to Professor Bernhard Karlgren, he wrote:

I have always had in my mind that I should try to come to Stockholm, partly because I am very interested in politics. When I have done away with some scientific work in five to ten years, it is quite possible that I start doing politics. (quoted in Larsson 1998, 111)

It seems fair to say that Ohlin's political interest emerged during the tenure in Copenhagen; before the mid-1920s, he had remained focused on academic discussions. Interestingly, this development also appears to have been influenced by the example of Keynes: like him, Ohlin began to think it necessary for economics to have a practical direction and for economists to take part in debates on economic policy.

Ohlin's old benefactor Heckscher began to notice the ideological change during Ohlin's last year in Copenhagen, not least the effect of Keynes. In 1930, Ohlin became professor at the Stockholm School of Economics and was to come into grave conflict with Heckscher. In a letter of August 25, 1935, Ohlin writes, "To some extent your disillusion [with Ohlin's dissociation from laissez-faire ideas] may depend on an inability to comprehend the personal development I underwent from 1925 to 1929, among other things under the influence of Birck" (Larsson 1998, 105).

This conflict was, on the one hand, professional: Ohlin increasingly attacked Heckscher's brand of liberalism and its free-market economics, and this took place both in the Political Economy Club in Stockholm (a discussion group for the leading economists) and in the newspapers. In *Stockholms-Tidningen* during August 1933, Ohlin criticized "the acknowledged authorities" who have a hard time understanding the demands of the age, "caught up as they are in the experiences of the pre-war era, which have degenerated into prejudices" (ibid., 103). Heckscher responded by sharpening his criticism of government intervention (see on this Carlsson 1994). The professional tensions spilled off into the private sphere. In a letter of June 21, 1935, Heckscher accused Ohlin of being "an apostle of central planning" (Larsson 1998, 103), and Ohlin soon replied that "All preconditions for a friendly relationship between Heckscher and Ohlin are missing" (ibid., 106).

Ohlin was to retain his "social-liberal" (Ohlin 1949, 97ff.) views for the remainder of his life, and he never returned to the more classically liberal elements of the early and mid-1920s. However, it bears noting that after World War II, Ohlin's ideological foe was not perceived to be classical liberalism but the more radical variants of collectivism advanced by some leading figures in the ruling Social Democratic Party. Ohlin successfully argued against excessive taxation and socialization of the means of production from the beginning of the Social Democratic reign (see, e.g., Ohlin 1982/1936).

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## Elinor Ostrom

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Elinor Ostrom (1933–2012), born Elinor Awan, was raised in Los Angeles:

She grew up in an era of economic depression that led into a resource-consuming war, in a city where fresh water was a prized commodity. “My mother had a victory garden during the war,” [Ostrom] recalls, “so I learned all about growing vegetables and preserving them by canning, and that was a wonderful experience that a lot of urban kids don’t ever learn.” (Zagorski 2006, 19221)

While in high school, she competed in debate, an exercise which taught her “there are always at least two sides to public policy questions, and you have to learn a good argument for both sides as well as knowing how to critique both sides” (Ostrom 2010a). Ostrom “recalls watching the Joseph McCarthy hearings on her family’s first television set and getting involved in a substantive disagreement with her mother” (Zagorski 2006, 19221). The first person in her family to attend college, Ostrom worked three jobs through her undergraduate education at UCLA, where she “was trained heavily in economics” (Ostrom 2009a). After working for several years she returned to UCLA for graduate work. Ostrom recalled:

My initial discussions with the Economics Department at UCLA about obtaining a Ph.D. in Economics were...pretty discouraging. I had not taken mathematics as an undergraduate primarily because I had been advised as a girl against taking any courses beyond algebra and geometry in high school. While the Economics Department encouraged me to take an outside minor in economics for my Ph.D.,

they discouraged any further thinking about doing a Ph.D. in economics. Political Science at that time was also skeptical about admitting any women to their Ph.D. program as they feared that only a city college would employ a woman with a Ph.D. That was not a good placement for building the reputation of the UCLA department. I was, however, admitted in a class of 40 students with three other women. (Ostrom 2010a)

Ostrom went on to become professor of government, and later of political science, at Indiana University; her husband Vincent—also a political scientist—had moved to Indiana from his previous position at UCLA. The Ostroms would remain at Indiana thereafter.

In 2009, Ostrom won the Nobel Prize “for her analysis of economic governance, especially the commons.” Ostrom’s work showed that communities can sometimes efficiently have pooled resources without experiencing the tragedy of the commons. Will Wilkinson (2009) describes Ostrom’s contributions as “an ingenious blend of formal game theory, laboratory experimentation, and down-and-dirty empirical fieldwork,” shedding “light on the ways real people arrive at rules that allow them to live in harmony with each other and their natural environment.”

Thinking outside the top-down versus privatization box, Ostrom has shown a third way of resource allocation: common pooling, or management of resources by an social ecology of norms that fits neither of the polar extremes. This method she found alive and well in many parts of the world. Although this method does not always work, certain cultural norms and other conditions make pooling the best option in certain situations. In those communities, Ostrom’s work “questions... the wisdom of external agents imposing *individual* property rights in communities which have evolved effective ‘common property regimes’” (Pennington 2012, emphasis in original).

Peter Boettke reflected on the impact of Ostrom’s studies:

In the history of political and economic thought the source of social order has been attributed either to the invisible hand of market coordination (Adam Smith) or the heavy hand of state control (Hobbes). Perhaps one of the best ways to understand Elinor Ostrom’s work is to see it as working out a Hobbesian problem by way of a Smithian solution. That is perhaps a bit of a stretch but not by much. Her work on local public economies and common-pool resources focuses on actual “rules in use” (as opposed to the “rules in form”) that decentralized individuals and groups rely on to make

decisions and to coordinate their behavior in order to overcome social dilemmas. It yields an optimistic message about the power of self-governance to succeed even in difficult situations. (Boettke 2009)

Boettke continues:

A point that sometimes trips up readers is that Ostrom often focuses on situations where the technology of parceling property into private plots does not exist. In these situations she studies collective, but non-State decision-making over common-pool resources. While private-property solutions are not employed in such cases, the “rules in use” that do operate accomplish what private property would have accomplished. We find rules that limit access and that make individuals in the group accountable for their misuse of the resource. We also find enforcement of those rules. In short, the analyst must be willing to look at both the form and function of rules in a variety of social situations. (Boettke 2009)

Self-governance rather than top-down governance was a theme in Ostrom’s writings. In a 1993 article, she wrote:

Institutions of self-governance depend upon the development of a science and art of association where citizens rely upon various forms of voluntary association to make the formal institutions of government serve the interests that citizens share with one another in human communities (V. Ostrom, 1991). Formal units of government are those nonvoluntary associations that are more permanently established by law to administer the affairs associated with identifiable territory. Their operation in a democratic society depends upon their being nested in rich configurations of voluntary activities. Voluntary associations, often labelled as “private,” serve crucial public purposes. (Ostrom 1993, 8)

In *Local Government in the United States* (Ostrom, Bish, and Ostrom 1988), Ostrom and her co-authors wrote:

The logic that Tocqueville used in characterizing American local government is substantially at variance with the logic of the Efficiency and Economy and Metropolitan Reform movements that has dominated consideration of local government in the twentieth century. Tocqueville saw a relatively high level of citizen participation in local

governmental affairs. Functions were dispersed among a multitude of popularly elected officials, with no organizational hierarchy available to coordinate the activity of those administrative functionaries. When conflicts arose, the courts were relied upon to resolve disputes in accordance with general rules of law. Thus coordination was achieved and disputes resolved without a single organizational hierarchy. (Ostrom, Bish, and Ostrom 1988, 85)

The authors used the “Metropolitan Reform movement” as one foil to that Tocquevillian logic:

The Metropolitan Reform movement, by contrast, assumed that each major urban area and its surrounding suburban fringe should be organized with reference to only one unit of local government that would then be in a position to make decision for the area as a whole. Its internal structure would rely upon a small number of elected officials who would be held accountable through popular election by residents in the single general unit of government. These elected officials would be responsible for establishing general policies for the area, and the administration would be organized through an integrated, hierarchical command structure so that administration of all services would be coordinated with reference to a single chief executive. The chief executive in turn would be guided by the policies established by a popularly elected council. Whether the chief executive was to be properly elected or appointed by the council would depend upon whether the plan of government was of the Strong-Mayor or Council-Manager type. (Ostrom, Bish, and Ostrom 1988, 85-86; see also Ostrom 1972)

Ostrom thought of her approach as neither left nor right, but as transcending such labels (Pennington 2012). Ostrom eschewed pronouncing on specific policy issues; to our knowledge she signed no petitions. There seems little reason to think her views changed over her adult years.<sup>63</sup> In a typical passage, she wrote of the political implications of her work:

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63. One scholar who knew Ostrom and her work quite well, Peter Boettke, has in private communication shared with us his own impressions and authorized our sharing it here: He reads Ostrom as having been quite classical liberal in orientation, with that orientation having gone back at least to her undergraduate UCLA years, in particular, her studying under Armen Alchian and Jack Hirshleifer.

Using a broader theory of rationality leads to potentially different views of the state. If one sees individuals as helpless, then the state is the essential external authority that must solve social dilemmas for everyone. If, however, one assumes individuals can draw on heuristics and norms to solve some problems and create new structural arrangements to solve others, then the image of what a national government might do is somewhat different. There is a very considerable role for large-scale governments, including national defense, monetary policy, foreign policy, global trade policy, moderate redistribution, keeping internal peace when some groups organize to prey on others, provision of accurate information and of arenas for resolving conflicts with national implications, and other large-scale activities. But national governments are too small to govern the global commons and too big to handle smaller scale problems. (Ostrom 1998, 17)

In an interview conducted by Amitabh Pal for *The Progressive*, when asked about her stance on privatization and property rights, Ostrom responded:

I don't equate them. So, and in the Nobel speech I state this very clearly, at an earlier juncture we thought that property rights meant one right and only one right: the right to sell. That was what I learned in graduate school, and that was the dominant thinking. As we were doing massive analysis of what people were doing out there in the field, we found many people who did not have the right to sell but had managed very well. Many groups are able—if they can have management and decide who is in and who is out—to do very well, even if they can't sell. They still have property rights. (Ostrom 2010b, 34-35)

When asked about her position on the privatization of common resources, Ostrom responded: “In some places, privatization has worked very well. I'm not anti-it. I'm anti-it as a panacea” (Ostrom 2010b, 35). When Pal told Ostrom: “Libertarians have tried to co-opt your work by saying it shows the unsuitability of large-scale, top-down economic arrangements,” Ostrom responded in a way that did not speak directly to how her work relates to a libertarian or classical liberal outlook. Her complete response follows:

A question is: How do we change some of our governance arrangements so that we can have more trust? We must have a court system, and that court system needs to be reliable and trustworthy. The

important thing about large-scale is the court system. For example, you would not have civil rights for people of black origin in the United States for a federal court system and also the courage of Martin Luther King and others—people who had the courage to challenge, and a legal system where, at least in some places, the right to challenge was legitimate.

We have a colleague working in Liberia. You had thugs recruiting young kids until recently. Having a legal system that does not allow thugs to capture kids, torment them, and make them use weapons is very important. (Ostrom 2010b, 35)

Asked, in another interview, “Do you take issue with those who call your theories ‘implicitly socialistic?’”, Ostrom said: “Yes. I don’t think they are supporting socialism as a top-down theory. A lot of socialist governments are very much top down and I think my theory does challenge that any top-down government, whether on the right or the left, is unlikely to be able to solve many of the problems of resource sustainability in the world” (Ostrom 2009b).

*The Economist* magazine’s obituary of Ostrom stated:

Mrs Ostrom put no faith in governments, nor in large conservation schemes paid for with aid money and crawling with concrete-bearing engineers. “Polycentrism” was her ideal. Caring for the commons had to be a multiple task, organised from the ground up and shaped to cultural norms. It had to be discussed face to face, and based on trust. (Economist 2013)

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## Edmund S. Phelps

by Daniel B. Klein and Ryan Daza

Edmund Phelps (1933–) was born during the Great Depression in Chicago. His father lost his job and moved his family to Hastings, New York. Phelps reflected on those years and how it helped him develop into an economist:

There were some clues in those formative years that I might become an economist. In the evening walks we took when I was four my father taught me to identify the automobile models we saw on the street. Later, at age seven or so, there was my admired survey of all the cats in the complex of apartments where we lived. A few years later I liked to spend the late afternoon by the main road recording the distribution by state of the license plates of the cars passing by. My kindergarten in Chicago was for gifted children, which my mother only recently mentioned (figuring, I guess, that it would now be safe to tell me). I did very well in school. My parents gathered from all this that I would be some kind of researcher, but it was not clear in what area. No economics was offered in high school (nor sociology or political

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science in those edgy post-war years). Bored, I spent increasing time with music. Nevertheless I did devour the newspapers my father brought home each night from the city that so excited my imagination. The financial and economic news was a staple of dinner-time conversation. My father had majored in economics and my mother in home economics—also clues, perhaps. (Phelps 1995, 90)

In high school, Phelps had a fancy for music. He took a course in “creative writing” that was his “first experience at inventing a fictional world, a kind of modeling” (Phelps 2007). Phelps eventually realized that a career as an artist would not be promising and explored other fields in college (*ibid.*).

Phelps entered Amherst College in 1951 thinking he would gravitate towards a money-making major, like business. He took a variety of courses including philosophy, which led him to read Plato, David Hume, Henri Bergson, and William James. He was “awestruck” and fully expected to become a philosophy major until his father cajoled him to take a course in economics (Phelps 1995, 90-91; 2007). Phelps found economics to be just as interesting and more practical (Phelps 2009a, 109). As an economics major, Phelps read and admired Paul Samuelson’s *Economics* textbook. He met and became acquainted with Samuelson and his work (Phelps 2007).

For graduate studies Phelps attended Yale. He speaks of his experience there:

At Yale, it is fair to say, the current of Keynesian economics ran very strongly even in the 1950s, when Yale was full of intellectual diversity. What I learned from the leader of the American Keynesians James Tobin, who very generously gave me an individual reading course, and, in my last year, from the young Arthur Okun became an important part of my toolkit—something I was to build on and to modify. Tobin was stunningly intelligent. . . . And he was self-deprecating to a fault—not an ideal role model for those of us who would be joining the theory wars. Yet I think those who admired Jim greatly, which I did, also could not help noticing an unreasoning conviction in some of Jim’s beliefs about the economy’s workings. (Phelps 2007)

After Yale, Phelps took a job at RAND for a year before returning to Yale as a member of the Cowles Foundation and then to the University of Pennsylvania. He joined Columbia University in 1971 where he has been, on and off, since, a professor of political economy and the director of the Center on Capitalism and Society. Phelps won the Nobel Prize in 2006 “for his analysis of intertemporal tradeoffs in macroeconomic policy,” and his work was credited for having

“deepened our understanding of the relation between short-run and long-run effects of macroeconomic policy”(Royal Swedish Academy of Sciences 2006).

A review of Phelps’s professional contributions is provided by Gylfi Zoega (2008) in the *New Palgrave Dictionary of Economics*. Perhaps the most remembered of Phelps’s works is his 1967 article on the Phillips curve, which challenged the theoretical underpinnings of the notion of a stable tradeoff between unemployment and inflation, along lines independently developed but similar to those of Milton Friedman (1968). The experience of the 1970s seemed to confirm their challenges, and professional opinion about an unemployment-inflation tradeoff moved in their direction (Hoover 2008).

In our efforts to understand Phelps’s ideological character, we come to the conclusion that he is strikingly independent in resisting some influences from his academic background and surroundings, that he is comfortable in being ideologically unsettled, and that he seems to have a significant classical liberal streak, a streak that comes forward perhaps particularly with his 2013 book *Mass Flourishing*. We admire Phelps for the way he not only faces up to the fact that ideological judgments necessarily entail large philosophical, moral, and cultural issues, but he directly addresses such issues—he strives to bring them into the works undertaken to inform and instruct our judgments.

Phelps approaches the big issues with a concern for the justness of the actions of those who make or reform the rules of society. Phelps says that social justice is a “huge area of interest” of his (Phelps 2009a, 119). At one point, his office was adjacent to John Rawls’s, and Phelps has called himself a Rawlsian (Phelps 2007). He elaborated in a 2009 interview:

I came under the influence of John Rawls (1971). I was quite taken with his idea of maximin: that economic justice involves making the portion going to the person earning the least as high as it can be. I was just curious to see how that would play out in a mathematical model of taxation. At another level, I saw that Rawls was being portrayed in a distorted manner by people who wanted to use him for their causes. Some people wanted to use him as grist for their platform of egalitarianism, while I thought that what was interesting and especially distinctive about Rawls was that, yes he was in a sense an egalitarian, but he was paradoxically an egalitarian who was willing to tolerate a lot of inequality for the sake of those at the bottom of the heap. He was interested in the *absolute* rewards to the people at the bottom, not their relative rewards. I was fascinated when I stumbled on the result that the marginal tax rate on the last dollar of income of the highest earner should be zero because to leave it at some number above zero would

mean foregoing the opportunity to cut a deal with that earner to work a little more in return for a cut in the marginal tax rate on the last dollar. In a way, I was showing people: don't think that with Rawls you're getting egalitarianism. If you've read his book, he's really saying that he wants to deploy incentives to increase the amount of tax revenue in order to have the largest amount of funds possible for subsidies to lift up the contributors to the economy at the bottom of the heap. I thought I was serving to clarify things. (Phelps 2009a, 119-120)

He continued:

I always had an interest in justice and fairness, even as a high school student and certainly in college. But Rawls (1971) was almost the only piece of work that was a systematic examination of what we might mean by economic justice. It was this that got me going. Until then I was interested in the subject but my interest had been confined to providing people with social entitlements to provide for basic needs if they couldn't provide for them themselves. (Phelps 2009a, 120)

But Phelps's ideological tendencies do not conform neatly to the interventionist, social democratic outlook of most Rawlsians. Some of his responses to Karen Horn's questionnaire (Horn 2009) show other strains in his thinking:

*What is the worst economic policy error that you can remember?*

Russia's adoption of Communism after the Revolution, the rise of fascist political economy in Italy and Germany in the thirties, and China's Cultural Revolution. (Phelps 2009, 278)

*Please name a politician that you admire for his/ her good hand in economic policy.*

Ronald Reagan had some very important gifts and insights. Much earlier, Theodore Roosevelt made pioneering moves in the direction of regulation, and Franklin D. Roosevelt did important things for capitalism by means of investor and consumer protection. In Europe, Ludwig Erhard and Margaret Thatcher come to mind. (ibid.)

*In your mind, what has been the most misleading theoretical approach in economics?*

So-called Keynesian economics in the period after World War II proved to be extremely misleading and misguided. Just like supply side economics, on which the jury is still out, it swept in to influence

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without anybody having a chance to sit down and think about the merits and demerits. (ibid., 278-279)

*What was the most important theoretical breakthrough?*

Of course, Adam Smith brought about a breakthrough. It is impossible to exaggerate his importance. Also, in the 20th century, the theories of John Maynard Keynes and Friedrich Hayek. (ibid., 279)

*Who is your favorite economist today?*

My friends Amar Bhidé and Roman Frydman, here at Columbia. Beyond them, of course, my all-time favorite is Paul Samuelson. (ibid.)

*Who are you most indebted to intellectually?*

Probably my teacher at Yale, William Fellner, a Hungarian who had come over in 1939. He was a walking repository of all 20th century knowledge. He had the biggest intellectual influence on me. (ibid., 280)

*Who was your role model?*

Could be James Tobin, could be Paul Samuelson. (ibid.)

In another interview, Phelps was asked “*Who is your favorite economist?*” Phelps responded: “I think it must be Hayek. I also admire Keynes, but I do not like his arrogant and anti-business views” (Phelps 2009c, 48).

In his 1997 book, *Rewarding Work*, Phelps makes a case for subsidizing the employing of low-wage workers, and, as stated in an interview, he offers a “free-market” solution. The interviewer then asked if he was a “devout free-market economist.” Phelps responded:

No, that wouldn’t be fair to say at all. The point of my book is that this country has a misguided tendency to be loyal at all costs to free-market principles. There are cases, however, where you have to make exceptions, where it would be wise to deviate from the free market, and low-wage employment subsidies is one of those cases. (Phelps 1997, 17)

He concludes, however, by saying: “I think there should be a presumption in favor of no intervention in most cases” (Phelps 1997, 17).

In a 2009 interview, Phelps remarked on having written a paper with John Taylor (Phelps and Taylor 1977), stating: “Later I regretted writing that paper a little bit because it seemed to put me in the camp with the Chicago school. It might have been interpreted as showing that I had gone over to the Chicago school with

its rational expectations. In fact, the rational expectations approach was not at all congenial to my way of thinking” (Phelps 2009a, 115).

In a 2013 interview, Phelps explained his critique of rational expectations, a critique developed in a book edited with Roman Frydman, *Rethinking Expectations* (Frydman and Phelps 2013):

I am far from being the only economist who has critiqued the premise of rational expectations. I’m just the main victim, since that approach drove people away from my approach—from my emphasis that expectations are a driver of what happens in modern economies. Several economists saw that the emperor has no clothes. Oskar Morgenstern explained that rational expectations would be untenable in the modern world, and Friedrich Hayek got the point. (Phelps 2013a)

At the end of the interview, Phelps had a message for policy makers:

I would tell them not to assume they have hit upon a model that captures expectations so they don’t need to think about expectations anymore. Expectations are a living thing and flighty; beliefs are flimsy, as Keynes said. The Fed is banking that expectations will behave according to the model the Fed wants people to adopt. But no central bank or anyone else should bank heavily on the correctness of its model. Expectations will almost certainly surprise the Fed and surprise Wall Street, too. Furthermore, the Fed model doesn’t allow for animal spirits in Silicon Valley or evil spirits on Wall Street. It can’t know about those things. Washington is banking on a best-case scenario to bail it out of the entitlements mess in the 2020s. The world is still in a crisis. Not a hospitable place for models based on rational expectations. (Phelps 2013a)

In a 2009 interview, Phelps responded to a question that asked if the recession validated such reservations, answering: “Yes, I think that the current crisis underlines the impracticality of rational expectation in an economy whose future is unknown. We need models which take into account future uncertainty and the potentiality of unfulfilled expectations” (Phelps 2009c, 46).

In 2010, on the government response to the recession, Phelps said:

The steps being taken by government officials to help the economy are based on a faulty premise. The diagnosis is that the economy is “constrained” by a deficiency of aggregate demand, the total demand

for American goods and services. The officials' prescription is to stimulate that demand, for as long as it takes, to facilitate the recovery of an otherwise undamaged economy—as if the task were to help an uninjured skater to get up after a bad fall.

The prescription will fail because the diagnosis is wrong. There are no symptoms of deficient demand, like inflation, and no signs of anything like a huge liquidity shortage that could cause a deficiency. Rather, our economy is damaged by deep structural faults that no stimulus package will address. (Phelps 2010a, 17)

Phelps was asked in a 2010 interview: *“The current administration has announced greater regulation and stricter game rules for the financial sector as a way to fight against the root of the problem. Do you believe there is a risk that stricter rules may deprive the financial sector of its flexibility at the expense of innovation and investment?”* He responded:

I do not care if stricter rules deprived the financial sector of some opportunities for *financial* innovation. The social value of these financial innovations is overestimated. For several years now the banks have shown little interest in lending to businesses for innovative projects. However, I am worried that a range of tough regulations on the banks might end up depriving us of a financial sector that can supply credit for *business* innovations. It is highly desirable to avoid instituting redundant and overly stringent regulations. (Phelps 2010b, 57)

In 2009 Phelps said he was making ongoing efforts to justify “capitalism”:

Since 2002, I've been trying to develop a new justification for capitalism, at least I think it's new, in which I say that if we're going to have any possibility of intellectual development we're going to have to have jobs offering stimulating and challenging opportunities for problem solving, discovery, exploration, and so on. And capitalism, like it or not, has so far been an extraordinary engine for generating creative workplaces in which that sort of personal growth and personal development is possible; perhaps not for everybody but for an appreciable number of people, so if you think that it's a human right to have that kind of a life, then you have on the face of it a justification for capitalism. There has to be something pretty powerful to overturn or override that. (Phelps 2009a, 121)

*Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change* (Phelps 2013b) would seem to be part of these efforts. The book addresses “the

prosperity of nations,” arguing that it grows out of personal “flourishing” and “broad involvement of people in the processes of innovation” (ibid., vii). Phelps explores the spiritual condition of human existence, with ample allusions to major philosophers and their ideas, and he explores different systems of societal values.

From a policy viewpoint, *Mass Flourishing* comes across as the expression of a man who is deeply troubled about trends in values and in political organization, where he sees a rise of “corporatist influences” (Phelps 2013b, 165) and warns of policies that benefit “cronies” of government officials (ibid., 178, 254). The book gives extensive attention and high tribute to Hayek. Phelps does not seem to come out and say clearly that corporatism and cronyism are necessary concomitants of the increasing governmentalization of social affairs, but that idea—which could follow from ownership and knowledge problems inherent in governmentalization—certainly helps one to make sense of Phelps’s discussion. The book also gives extensive attention and high tribute to Rawls. It is reasonable to view the book as quite aligned to the efforts of John Tomasi, the author of *Free Market Fairness* (Tomasi 2012), who proposes to marry Hayek and Rawls, saying that social justice demands a largely free-market, presumption-of-liberty stance in public policy. That Phelps is not as firmly classical liberal is clear from passing remarks of interventionist flavor (e.g., at Phelps 2013b, 82, 322) and from a tepidness and scantiness of concretes in the delivery of his message. But the overall drift of the book, in regard to policy, is to object to anti-classical liberal trends in culture and politics. The following quotations are illustrative of the main drift:

With the rise of stakeholderism, anyone deciding to start up an innovative company would have to expect that its property rights would be diluted as it copes with an array of figures—its own workers, interest groups, advocates, and community representatives—who ardently believe they have a legitimate “stake” in the company’s results. (Phelps 2013b, 315-316)

It is far better to leave the directions of the economy to the competition of the market, since the state does not have the knowledge or judgment to improve efficiency of the market’s allocation of investment. ... In general, public policies and all the governmental institutions and practices of the corporatist economy must be shrunk and some of them terminated. (ibid., 320)

Labor unions and professional associations are capable of raising uncertainties for anyone contemplating an innovative venture. ... The

lawsuit of the U.S. government against Boeing for opening a plant in a right-to-work state must give pause to innovators. (ibid., 322-323)

In the final paragraph, Phelps writes:

The haze of regulation and pork barrel contracts could be curbed so that businesses across the economy would once again have the freedom and incentive to attempt innovation. Fiscal responsibility could be reestablished to allay business fears that profit from innovation would be taxed away. (ibid., 324)

Phelps has not been active in signing petitions; we know of his signing only the “Purple Health Plan” (Kotlikoff 2011).

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## Christopher A. Pissarides

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Born in Cyprus, Christopher Pissarides (1948–) grew up in a relatively well-off family in a mostly rural community. Pissarides discussed his decision to study economics: “Like many well-off Cypriots, I went to London to study for a degree in economics. I wanted to study architecture, but because of my father’s business my parents persuaded me to try economics or accounting. My love at school was mathematics, but it was not considered to be a good profession for a young man, with which I agreed. When I tried economics I liked it, so I decided to pursue my studies in it” (Pissarides 2011a).

One event that changed Pissarides’s life was the student protests that erupted in the late 1960s at Essex. Pissarides reflected: “In the late 1960s, when I was an undergraduate student, Essex became active in the student uprisings that characterised the times. In 1968 student political activity became particularly intense, and although I was never very active, the liberal attitudes of the time had a lasting

influence on me. I remember the Vietnam war and the assassinations of Robert Kennedy and Martin Luther King as particularly dramatic events that affected our political outlook” (Pissarides 2011a).

He earned his bachelor’s and master’s degrees in economics from the University of Essex, and his Ph.D. in economics from the London School of Economics. After serving at the Central Bank of Cyprus, Pissarides accepted a position at LSE, where he has been since 1986. Upon graduating, he began working on the problem of unemployment. Pissarides shared the Nobel Prize in 2010 with Peter Diamond and Dale Mortensen “for their analysis of markets with search frictions.”

Pissarides has drawn out policy implications of his work. He once found that “tax-financed subsidies reduce wages and raise employment and vacancies, whereas tax-financed unemployment benefits raise wages and reduce employment and vacancies” (Pissarides 1985, 121). In a 1990 paper, he and Ian McMaster concluded that “a regional policy that moved jobs to depressed areas—in contrast to relying on the movement of people to jobs—could save society considerable adjustment costs” (Pissarides and McMaster 1990, 828).

In a 2008 paper on welfare, Pissarides and Rachel Ngai wrote:

We have shown that in a representative sample of countries the Anglo-Saxon welfare policies of limited transfers and encouragement of market participation lead to more employment overall, especially when compared to the continental European policy of encouraging the family to look after dependents at home, through a more extensive unconditional system of social transfers. (Ngai and Pissarides 2008, 433-434)

They continued:

Ultimately the question is how does a country choose to support lower incomes? Anglo-Saxon policies encourage all market activity but Scandinavian policies encourage more low-skill activity. They both help lower-skill workers through the market but Scandinavian policies help them more through a system of subsidies. In this respect continental transfer policies are the least efficient because they push low-skill work to the home and support low income with cash transfers, which are both distortionary and reduce the tax base. (Ngai and Pissarides 2008, 435)

Pissarides spoke strongly about the 2013 financial collapse in his home country. He criticized Germany for “bullying,” and said that rather than punish

all Cyprus banks for the errors of two, there should be more monitoring and regulation (Pissarides 2013a). He opposed taxes on depositors (Pissarides 2013a) and opposed the bank bailouts: “Prudent bankers attracted depositors by following low-risk strategies. But now their depositors are asked to pay for the high-risk strategies of other bankers. High-risk bankers risked their depositors’ money. But their depositors will not lose more than the depositors of other banks. This is the logic of the Cyprus ‘bailout’ by the International Monetary Fund, the German-led Euro group and the European Central Bank. Delinquent bankers’ losses are protected by prudent bankers’ gains” (Pissarides 2013b).

Speaking in 2010 on UK policy, Pissarides called for a more gradual reduction of the budget, considering the enacted cuts “a little too fast” (quoted in Blackden 2010). The next year, Pissarides addressed himself to Chancellor of the Exchequer George Osborne in an open letter:

I know you worry about the deficit but I think you worry about it too much. Keynesianism of the kind that guided policy after the Second World War no longer works, but there are still lessons in it for us. Worrying too much about the deficit in a recession makes the recession worse. . . . Let me emphasise that we *do* need a plan for deficit reduction. But it does not have to start so soon—when the economy is still in recession—go so deep and be so inflexible. Your approach to deficit reduction reminds me of Margaret Thatcher’s approach to reducing inflation. She was right to be worried about it, and the reforms that she introduced were badly needed. But she squeezed the economy so much, in such a short period of time, that she caused a severe—and unnecessary—recession. It took almost ten years for unemployment to recover. I fear that the way you are squeezing the economy now will have similar consequences. It will slow down the recovery and may even cause a double-dip recession. (Pissarides 2011b, 23)

In 2011, Pissarides called for a reduction in employer taxation and regulation across the EU:

Why are Europeans not creating enough jobs in these sectors [health, retailing and a general “business services” sector that includes accountants, management consultants and expert advisers]? Take retailing. Most people who have been shopping in the United States know that it is a lot easier to get assistance in American shops than European ones. Economists attribute these differences to taxation and regulations that

make employing retail assistants more expensive in Europe, combined with the fact that there is an alternative to employing more assistants: self-help. (Pissarides 2011c)

He also spoke to matters of employment in the healthcare sector:

But the biggest growth in the gap between the United States and the eurozone is also the most controversial. Employment in health has grown much faster in the United States than in Europe, even though the European population is ageing faster than the American one. Why is that?

The jobs in the American health sector are not only in medical services but also in care, for both young children and older people. But the cost of these services has also risen enormously. Is the reason that we are not creating enough jobs in healthcare services in Europe the fact that we are not allowing costs to rise faster? I would like to think that this is not the reason.

In Europe, we have a more caring social system supported by public policy, and much of the cost of education and healthcare is borne by the state. Demand for these services, especially for health, will increase in the future, partly because of our ageing populations, but also because with rising living standards we expect better personal services and better healthcare.

How can our governments meet the costs of these services? The United States has shown one way: by allowing costs to increase and letting the private sector take the initiative. Sweden and the other Scandinavian countries have shown another way: by increasing taxes and using the revenue to subsidise jobs in healthcare. (Pissarides 2011c)

In 2012, Pissarides wrote that “Europe is sinking itself deeper into recession with its austerity politics” (Pissarides 2012), and he called for fiscal austerity to be “imposed gradually as the economy starts reviving” (quoted in Ryan 2012). In 2013, Pissarides declared: “Austerity is the cause of unemployment. We should cast austerity aside” (quoted in ANA-MPA 2013). He called for particular government intervention “to counter youth unemployment” (ibid.).

Comparatively, he found the United States to be on the road to recovery, thanks to job-creation policies. While cautious about rising debt in the United States, Pissarides was optimistic about President Barack Obama’s ability to tackle it. He saw Obama as a model for European leaders: “And unlike us, he seems to

be doing it the right way, waiting for the economy to show firm signs of recovery before hitting it with cuts” (Pissarides 2012).

In a 2013 paper in *Economica*, Pissarides wrote:

An obvious lesson from the experience with fiscal austerity and reforms is that it is difficult to get the timing right in order to avoid a deep recession. Fiscal austerity has an immediate negative impact on the economy because it operates through aggregate demand, which penetrates all sectors of the economy. Structural reforms eventually have a positive impact, but this positive impact comes in through supply-side changes that improve productivity and the incentives to hire labour. Supply-side changes always take longer to have an impact on aggregate economic activity, as they might involve things like the replacement of old equipment with new, the closure of some firms and the opening of others, and the shedding of labour in some establishments and the creation of jobs in others. In the short term there might even be a negative impact of the reforms as the first reaction of employers is likely to be to get rid of labour before they have enough confidence to start new job creation. Something like this has been discussed in the literature since at least Joseph Schumpeter’s “creative destruction,” which moves the economy to recession through the destruction of old unproductive capital giving the incentives to entrepreneurs to create new jobs to fill the gap. (Pissarides 2013c, 402)

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## Edward C. Prescott

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Edward Prescott (1940–) was born in upstate New York to German immigrant parents. His mathematical inclinations and lessons in business from his father prepared him to be an economist (Prescott 2005). Ideologically, Prescott says that in high school he was a Fabian socialist but in college changed his views. He now tends toward support of "individual responsibility and decentralized arrangements" as opposed to "paternalistic statism" (Prescott 2013).

Prescott began his college education at Swarthmore College with dreams of being a rocket scientist: "It was the Sputnik era... This dream led me to major in physics for my first three years" (Prescott 2009, 370). Prescott wrote of his college experience in his Nobel autobiography: "What disappointed me about Swarthmore was the dearth of intellectual discourse. Fellow students spent much of their time memorizing, rather than thinking and figuring things out. Nearly all were too ideological to carry on an intellectual discussion. I could always predict what they would say. How anyone could defend the killing of tens of millions by Stalin and

Mao was (and is) beyond me. This experience cured me of my socialistic leanings” (Prescott 2005).

Prescott eventually turned to mathematics because he was not fond of the all-day honors laboratories in chemistry and magnetism. A mathematical course in engineering introduced Prescott to the new field of operations research. He decided to go to Case Institute of Technology for graduate studies where he “learned a set of tools that proved invaluable in helping to make macroeconomics part of economics.” With his new fondness for engineering, Prescott decided to get his Ph.D. at the Graduate School of Industrial Administration at Carnegie Institute of Technology, a multidisciplinary program, which introduced him to economics (Prescott 2009, 370-371).

Prescott taught at the University of Pennsylvania, Carnegie Mellon University, and the University of Minnesota before settling at Arizona State University.

Prescott shared the 2004 Nobel Prize in economics with his collaborator Finn Kydland “for their contributions to dynamic macroeconomics: the time consistency of economic policy and the driving forces behind business cycles.” Their analysis suggested a need for pre-commitment devices in policy decisions (Kydland and Prescott 1977).

In the 1960s Prescott believed Keynesian economics “was a great theory that could be used to eliminate costly economic fluctuations” until “Bob Lucas established that was impossible.” Prescott claimed that Robert Lucas Jr. heavily influenced his thinking, so much so that when he taught at Carnegie Mellon in 1971, he decided not to teach macroeconomics until he “understood what it was and how to teach it.” He did not teach macroeconomics until he moved to the University of Minnesota in 1981 (Prescott 1996).

Regarding the Federal Reserve System, Prescott has written: “An independent Fed, I think, is something that is a valuable commitment technology for Congress, for the same reason an independent judiciary is a good arrangement” (Prescott 1996).

In a book chapter titled “The Great Recession and Delayed Economic Recovery: A Labor Productivity Puzzle?”, Prescott and Ellen McGrattan built a model of macroeconomic fluctuations, then provided “empirical evidence for negative shocks to TFP [total factor productivity], which are the main sources of decline in predicted real activity” in their model. “The evidence we consider are costs paid by businesses to comply with federal regulations and expenditures and employment of federal regulatory agencies. We interpret the increase in regulatory costs as a decrease in TFP. The evidence shows that these costs have risen dramatically in recent years” (McGrattan and Prescott 2012, 118-119).

Prescott describes a methodology he developed with Finn Kydland as having “made dynamic aggregate economics a hard quantitative science” (Prescott 2013). He says, by contrast, that “Political views still are a matter of what I call religion and not science. Religion in the sense I am using the word is crucial to getting around the time inconsistency problem. Without it there would not be society” (ibid.).

Prescott has signed five petitions that are judged to be “liberty-augmenting” by David Hedengren and coauthors (2010), and no “liberty-reducing” petitions. Prescott spoke out in opposition to the Obama stimulus (Gabrielson 2009), and he endorsed Mitt Romney for President in 2012.

Professor Prescott kindly responded to our questionnaire:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

In high school I was a Fabian socialist.

*2. How about at age 25 or so? Had they changed at all by then?*

Yes they changed in college. Incidentally, at 25, I still used the macro paradigm underlying the macro-econometric models that came to predominance in the 1950s and 1960s and failed so spectacularly, as predicted by dynamic economic theory, subsequently.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

By 35 the advances in tools made it possible to use economic theory to model dynamic economic phenomena.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

In the late 1970s, Kydland and I developed the methodology that made dynamic aggregate economics a hard quantitative science. So much has been learned by so many using this methodology. Economic theory predicts and predicts well what will happen condition on future policy rules.

I believe a better system is one with individual responsibility and decentralized arrangements than paternalistic statism. Political views still are a matter of what I call religion and not science.

Religion in the sense I am using the word is crucial to getting around the time inconsistency problem. Without it there would not be society.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or*

*character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?*

No. (Prescott 2013)

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## Alvin E. Roth

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Alvin Roth (1951–) was born and raised in New York City. During his experience in New York schools, Roth was under-challenged and dropped out as a high school junior. After taking a few engineering classes at Columbia University, Roth applied and became a full-time engineering student (Adams 2010). He went on to Stanford University for his Ph.D. in operations research.

Led to engineering, and specifically operations research, “with the idea of fixing things up so they work better,” Roth moved into game theory, and from

game theory into economics (Boyeaux 2012). He has taught at the University of Illinois, University of Pittsburgh, Harvard University, and Stanford University.

Roth and Lloyd Shapley shared the 2012 Nobel Prize in Economics “for the theory of stable allocations and the practice of market design.” Roth describes market design as studying the details of how markets work: “The challenge is to understand complex markets well enough to fix them when they’re broken, and implement new markets and market-like mechanisms when needed” (Roth 2010).

Roth stated in an 2012 interview: “Economics is about being human. We study how people get along with each other, how they coordinate, how they compete, how they mate and match, what kind of choices they make at critical junctures. Not dismal at all. I think of economics as a form of higher gossip. These are economic questions, but they’re also very human questions” (Roth 2012).

Roth is not vocal on policy issues. Roth maintains a blog ([link](#)), but there he seems to stick to news and analysis, rather than offering overt opinions. Roth reportedly donated to Barack Obama’s Presidential campaign in 2008 (Kiely 2012).

In 2003, Roth designed a system of “school matching” for New York City Public Schools’ 80,000 eighth graders. The design was intended to match the students with their preferred schools using a deferred-acceptance algorithm. Roth used a modified version of this algorithm for matching Boston’s public school students and medical school students with residency placements (Adams 2010).

Roth also designed a system of human-kidney exchange to facilitate kidney matching and help raise the number of donations: “In 2003 Roth started work on a system that would allow people who want to donate kidneys to loved ones but can’t because their blood types don’t match, to exchange organs with other incompatible donor pairs” (Adams 2010). But Roth has not spoken out against the basic restrictions in the matter of human organs (Diesel 2010, 328). Interviewed for a BBC documentary on “Repugnant Markets,” Roth commented, “I think actually it’s a little hard to predict on first principles which things will be repugnant and which not because they’re different in different times and places” (Roth 2007).

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## Paul A. Samuelson

by Daniel B. Klein and Ryan Daza

Born in Gary, Indiana, Paul Samuelson (1915–2009) was of the generation of economists inspired by the Great Depression. He reflected on the period: “After 1929 it was the sturdy middle classes, and not just the lumpen proletariat, who were down and out. It was not all that unfashionable or disreputable to be bankrupt. By the last Hoover years, the states and localities had run out of money for relief. In middle-class neighborhoods like mine, you constantly had children at the door, asking by mouth or with a note for a dime, a quarter, or a potato: saying, in a believable fashion, we are starving” (Samuelson 1985, 6). Samuelson credits his parents for his ethical outlook:

Although positivistic analysis of what the actual world is like commands and constrains my every move as an economist, there is never far from my consciousness a concern for the ethics of the outcome. Mine is a simple ideology that favors the underdog and (other things equal) abhors inequality.

I take no credit for this moral stance. My parents were “liberals” (in the American sense of the word, not in the European “Manchester School” sense), and I was conditioned in that general *Weltanschauung*. It is an easy faith to adhere to. When my income came to rise above the median, no guilt attached to that. Nor was there a compulsion to give away all my extra coats to shirtsleeved strangers: my parents would have thought me daft to do so, and neurotic to toss at night for not having done so. Some personal obligation for distributive justice liberals do expect of themselves; but what is far more important than acts of private charity is to weight the counterclaims of efficiency and

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equity, whenever public policy is concerned, in the direction of equity.  
(Samuelson 1983, 5)

At age 16, Samuelson began his undergraduate studies at the University of Chicago. Samuelson reflected on his experiences there:

I began the study of economics on January 2, 1932. America, indeed the world, was in deep depression, though this had not quite yet contaminated any of the books assigned to me at the University of Chicago. ... Oddly, even though the outside world of the 1930s was being wracked by increasing joblessness and excess capacity, in Chicago it was easy learning pre-Keynesian economics in which all markets always cleared. We handled the situation by being schizophrenic. (Samuelson 1985, 5)

He continued:

A convert takes his religion seriously. From age 16 to 19 I was puzzled. I knew there were no jobs. Throughout my college career I earned exactly \$3.00; it was for a Saturday's stint delivering luxury fruits, but I was not called back and the University Placement Service had no leads for me to pursue. People who still held their jobs were lucky and knew it. How could all this be in a market-clearing model? Walras-Debreu paradigms, like Marshall-Cassel paradigms, have no room in them for lucky and unlucky transactors. ...

Clearly I was ripe to accept, a few years later, Keynes' proposal that money wage rates be accepted as if they were "sticky." This was not a perfect bicycle, but it was the best wheel in town. But at the time I worked desperately to fit all this into my classical system. In despair I fabricated the hypothesis that people already on the job must have developed special skills that made them more valuable to their employers than the unemployed alternatives were. (Samuelson 1985, 6)

Samuelson received his bachelor's degree from the University of Chicago in 1935, and his master's degree in 1936 and Ph.D. in 1941, both from Harvard University. He became a professor at MIT by age 25. Samuelson won the Nobel Prize in 1970 for "the scientific work through which he has developed static and dynamic economic theory and actively contributed to raising the level of analysis in economic science."

Samuelson found solutions in John Maynard Keynes's work and became one of the most successful proponents of Keynesian economic theory, through both his policy advice and his widely used undergraduate economics textbook. Samuelson, regarding the impact of Keynes's *General Theory*, stated in 1946:

I have always considered it a priceless advantage to have been born as an economist prior to 1936 and to have received a thorough grounding in classical economics. It is quite impossible for modern students to realize the full effect of what has been advisably called "The Keynesian Revolution" upon those of us brought up in the orthodox tradition. What beginners today often regard as trite and obvious was to us puzzling, novel, and heretical. . . .

The *General Theory* caught most economists under the age of 35 with the unexpected virulence of a disease first attacking and decimating an isolated tribe of South Sea islanders. Economists beyond 50 turned out to be quite immune to the ailment. With time, most economists in-between began to run the fever, often without knowing or admitting their condition.

I must confess that my own first reaction to the *General Theory* was not at all like that of Keats on first looking into Chapman's Homer. No silent watcher, I, upon a peak in Darien. My rebellion against its pretensions would have been complete except for an uneasy realization that I did not at all understand what it was about. And I think I am giving away no secrets when I solemnly aver—upon the basis of vivid personal recollection—that no one else in Cambridge, Massachusetts, really knew what it was about for some 12 to 18 months after its publication. Indeed, until the appearance of the mathematical models of Meade, Lange, Hicks, and Harrod there is reason to believe that Keynes himself did not truly understand his own analysis.

Fashion always plays an important role in economic science; new concepts become the *mode* and then are *passè*. A cynic might even be tempted to speculate as to whether academic discussion is itself equilibrating; whether assertion, reply, and rejoinder do not represent an oscillating divergent series, in which—to quote Frank Knight's characterization of sociology—"bad talk drives out good."

In this case, gradually and against heavy resistance, the realization grew that that the new analysis of *effective* demand associated with the *General Theory* was not to prove such a passing fad, that here indeed was part of "the wave of the future." This impression was

confirmed by the rapidity with which English economists, other than those at Cambridge, took up the new Gospel: e.g., Harrod, Meade, and others at Oxford; and still more surprisingly, the young blades at the *London School* like Kaldor, Lerner, and Hicks, who threw off their Hayekian garments and joined in the swim. (Samuelson 1946, 187-188)

Samuelson described himself as being “in the right wing of the Democratic New Deal economists” (quoted in Lindbeck 1992). In 1983, Samuelson wrote “I do not perceive that my value-judgment ideology has changed systematically since the age of 25” (Samuelson 1983, 6).

Michael Szenberg, Lall Ramrattan, and Aron Gottesman have described Samuelson’s decision on where to teach and why:

Theodore Schultz, then chairman of the Economics Department at the University of Chicago, sought Samuelson as a counterbalance to the school’s *laissez faire* philosophy. Schultz’s argument to Paul was enticing: “We’ll have two leading minds of different philosophical bent—you and Milton Friedman—and that will be fruitful.” Paul tells us that he verbally accepted the offer initially, but changed his mind twenty four hours later, fearing that the position would force him to counterbalance Friedman by adopting leftist opinions that he didn’t fully agree with. Samuelson clearly defined himself as a centrist, rather than an advocate of right- or left-wing philosophy. Also, he resisted requests by former Presidents John F. Kennedy and Lyndon B. Johnson to join the Council of Economic Advisors. As he said, “in the long-run the economic scholar works for the only coin worth having—our own applause” (Samuelson 1962). Also, by distancing himself from politics, Paul can call the “shots as they really appear to be.” (Szenberg et al. 2007, 4)

In a 1960 interview, Samuelson said: “I never look upon the Government as something in Washington that does something to us or for us. I think of public policy as a way in which we organize our affairs, and so I do not think it is part of fiscal responsibility and monetary-policy responsibility to be discontented with the sort of unemployment we had in the prewar decade, and with the sort of exuberant booms leading to crises and panics that we had throughout the history of our capitalist system” (Samuelson 1960, 55). Samuelson avoided direct policymaking power, but he was consultant to presidents and government agencies. Avinash Dixit describes Samuelson as having been “an active participant in policy debates, perhaps most importantly through his columns in *Newsweek*” (Dixit 2012, 4).

Although Samuelson did not see his views as changing in a fundamental way, Samuelson was influenced by certain life experiences, and there might be some grounds for saying that in his later years he lurched a bit in the classical liberal direction. When academia felt pressure in the McCarthy era, Samuelson said he learned “the perils of a one-employer society. ... To me this became a newly perceived argument, not so much for *laissez faire* capitalism as, for the *mixed* economy” (Samuelson 1983, 6, emphasis in original). His faith in government action also diminished as highly interventionist economies failed to perform well in the subsequent decades (Weinstein 2009). He wrote in 1983: “My enhanced skepticism about the government ownership of the means of production or the efficacy of planning is not a reflection of ossifying sympathies and benevolence, but rather is a response to the testimony of proliferating real-world experiences” (Samuelson 1983, 6).

Still, in 1999, Samuelson elaborated his contempt for libertarianism:

Years ago [Richard Crossman] edited *The God That Failed*, whose chapters report the disillusionment of one true believer after another in the promise of Marxian prophecies under the impact of contemporary actuality. It would be boring sawing of sawdust to elaborate on that god that failed. More relevant to the present moment of global economic chaos is an antipodal-polar archetype. I am speaking about the god of pure *libertarian* capitalism. (Samuelson 1999, 30)

He continued:

If rational expectationism or rule-bound monistic monetarism are realistic and potent doctrines, then the god of libertarian *laissez-faire* reigns intact. Do not, they say, let one storm panic you into any macro-activism. Things themselves will allegedly muddle through and, besides, activism can only systematically affect long-term price levels rather than sustainable macro-output and employment patterns. So it is argued.

Outside the seminar rooms, movers and shakers are becoming shaken in their faith that the god of libertarian *laissez-faire* cannot fail. Paul Volcker and Alan Greenspan [*sic*] dutifully pay lip service to the independent central bank boilerplate, but—like Mr. Dooley’s Supreme Court, which “follows” the election returns—in 1982, 1987, 1998, Volcker and Greenspan have shown a proper concern for  $Q(t)$  likelihoods even when  $P(t)$  remained pacific. I hope that the rumor

is true that the clerks at the new (Frankfurt) Central European Bank are furiously leaning English at Berlitz night school courses and letting their Bundesbank German rust.

I conclude on a serious note. Why have the rational expectationists suddenly turned quiet? The ball is in the court of Lucas, Sargent, and other important contributors to the New Classical School. Are organized markets *macro-efficient* inside of modern mixed economies, as those economies *actually* are? What makes them so? What keeps them so? Are self-fulfilling “rational” bubbles (away from “fundamentalists’ value”) impossible? Or possible? And with what plausible theory about life tables of bubbles’ expected duration? (Samuelson 1999, 32)

A *New York Times* obituary of Samuelson says that, although Samuelson warned against government getting too big to efficiently respond to societal needs, he believed that “no serious political or economic thinker would reject the fundamental Keynesian idea that a benevolent democratic government must do what it can to avert economic trouble in areas the free markets cannot. Neither government alone nor the markets alone, he said, could serve the public welfare without help from the other” (Weinstein 2009).

Along those lines, the *Economist* obituary of Samuelson said:

[Samuelson] approved of massive government spending to help an economy escape from recession when monetary policy can do no more. When the Obama administration introduced just that sort of stimulus this year, partly on the advice of Mr Samuelson’s nephew, Larry Summers, who is Mr Obama’s chief economic adviser, he was quick to approve. (*Economist* 2009)

A 2004 *Journal of Economic Perspectives* article by Samuelson was interpreted by some as promoting protectionism, but Samuelson retorted: “Economic history and best economic theory together persuade me that leaving or compromising free trade policies will most likely reduce future growth in well being in both the advanced and less productive regions of the world. Protectionism breeds monopoly, crony capitalism and sloth” (Samuelson 2005, 242).

Mark Skousen has traced changes in the famous textbook authored by Samuelson (1st ed., 1948), and later Samuelson and William D. Nordhaus (19th ed., 2010). Skousen finds: “Recently, Samuelson and coauthor William Nordhaus have gradually shifted from antithrift to prosavings policies, from deficit spending

to fiscal restraint, and from fiscal policy to monetary policy as effective countercyclical tools” (Skousen 1997, abs.).

Samuelson was interviewed by Karen Ilse Horn in June 2007. In the interview, Samuelson says:

By and large, globalization has helped both China and the US. But the point is that the winners in the US are a very unbalanced group. In the old New Deal days, with Presidents Franklin D. Roosevelt, Harry Truman, John F. Kennedy, Lyndon Johnson, the government would have made the winners—with the use of the tax system and the expenditure system—share some of their winnings, so that potentially, everybody could be better off. However, there is a big change in my understanding: only to a limited degree can you take a market system and improve on it by government buy-out. (Samuelson 2009a, 52)

Then Horn asks, “And why isn’t state intervention a good remedy?” Samuelson continues:

Mine is not the Hayekian argument that it would turn totalitarian. To me, all of current history just shows that if you do that, as in Sweden, you kill the goose that lays the golden eggs. You can rectify distribution only to a very limited degree. The real trouble with the modern world from an ethical viewpoint is not an idiot like President George W. Bush or a mean guy like President Richard Nixon, it’s the electorate. The more we get away from the Great Depression, when everybody felt we had the same problems and need of mutual [reassurance], and from the “necessary war”, World War II, the more the electorate no longer has altruism. But you can’t just dispel the electorate, as the German playwright Bertolt Brecht noted sarcastically. Yet, this emphasis upon the limited improvements that you can make within a modern democracy is a fundamental change in my thinking. The other thing that has changed is that because of Japan and Singapore and Hong Kong and Taiwan, the US economy in the ancient tradition of my textbook is a different one from the one of the current edition. In those days, the Fortune 500 companies had a measure of oligopoly power which they were forced to share with the trade unions. Well, in the meantime, the trade unions are gone in America, except in a few localizations and in government. We have a coward labor force. The result is that we are much more like in a Say’s law situation. All that

conversion to the disequilibrium system, into Keynesianism, seems no longer useful to me. (Samuelson 2009a, 52-53)

In a questionnaire that Horn administered to Samuelson and the other laureates that she interviewed, she asked, *Please name a politician that you admire for his/ her good hand in economic policy*, to which Samuelson answered: Franklin Delano Roosevelt. To Horn's question, *In your mind, what has been the most misleading theoretical approach in economics?*, Samuelson answered: Libertarianism (Horn 2009, 265).

In a foreword contributed to a short 2009 edited volume on Franco Modigliani, Samuelson—in his colorful way—remarked on Hayek and Friedman:

Vulgar debaters used to argue about who was the greatest twentieth century economist. Inevitably Keynes came up. For a brief period there was the ridiculous comparison between Hayek and Keynes. That was just before Hayek went into what cosmologists call a black hole as far as mainstream world economics was concerned. During the supply-shocked stagflation of the 1970's, when triumphant Keynesianism was losing esteem, monetarist Milton Friedman was praised in the Sunday newspapers as Keynes's superior. Alas, 1960 Friedman's version of 1911 Fisherine  $MV=PQ$  in the end advanced no new understanding of either stagflation or macroeconomic prediction. (Samuelson 2009b, iii)

We are aware of two two public petitions signed by Samuelson, one opposing the George W. Bush tax cuts and another endorsing John Kerry for president in the election of 2004 (Hedengren et al. 2010).

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# Thomas J. Sargent

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Thomas Sargent (1943–) was born in Pasadena, California. Sargent has said that in high school he was more interested in football than academics, but his classmates remember him as being very smart (Sommer 2011b). He earned his bachelor’s degree from the University of California at Berkeley, where he took his first courses in economics and political science; Sargent remembers going door-to-door for John F. Kennedy, back in “the days when all the Democrats believed in balanced budgets” (quoted in Sommer 2011b). Sargent went on to Harvard University for his Ph.D., then served on the faculties of several universities including Penn, Minnesota, Chicago, and Stanford. He has been professor of economics at New York University since 2002. In 2011, Sargent shared the Nobel Prize in economics with Christopher Sims “for their empirical research on cause and effect in the macroeconomy.”

At Minnesota, Sargent, Sims, and others helped establish the so-called “freshwater school” of macroeconomics. A central distinction between the freshwater school and the rival “saltwater school” lies in the emphasis that freshwater macroeconomists place on the idea of rational expectations (Waldmann 2009; Skidelsky 2010, 29-36). Sargent explains rational expectations in an encyclopedia entry:

The concept of rational expectations asserts that outcomes do not differ systematically (i.e., regularly or predictably) from what people expected them to be. ...

The rational expectations version of the permanent income hypothesis has changed the way economists think about short-term stabilization policies (such as temporary tax cuts) designed to stimulate the economy. Keynesian economists once believed that tax cuts boost disposable income and thus cause people to consume more. But according to the permanent income model, temporary tax cuts have much less of an effect on consumption than Keynesians had thought. ...

Rational expectations undermines the idea that policymakers can manipulate the economy by systematically making the public have false expectations. ... If people have rational expectations, policies that try to manipulate the economy by inducing people into having false expectations may introduce more “noise” into the economy but cannot, on average, improve the economy’s performance. ...

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The idea of rational expectations has also been a workhorse in developing prescriptions for optimally choosing monetary policy. Truman Bewley and William A. Brock have been important contributors to this literature. Bewley's and Brock's work...supports, clarifies, and extends proposals to monetary reform made by Milton Friedman in 1960 and 1968. (Sargent 2008)

In a 1998 interview, Sargent described himself and his motivation for adopting rational expectations: "I was just a straight Keynesian economist. And in those days, rational expectations were clearly sort of a next step" (Sargent 1998, 165).

In perhaps their most famous paper, "Some Unpleasant Monetarist Arithmetic," Sargent and Neil Wallace show that, "under certain circumstances, the monetary authority's control over inflation in a monetarist economy is very limited even though the monetary base and the price level remain closely connected. In particular, we will demonstrate that this is true when monetary and fiscal policies are coordinated in a certain way and the public's demand for interest-bearing government debt has a certain form" (Sargent and Wallace 1981, 1).

Sargent has sometimes bristled at attempts to pin down his political persuasion. In the 1998 interview cited above, Sargent claimed: "I don't make policy recommendations" (Sargent 1998, 169). More recently, Jeff Sommer of the *New York Times* reported:

In telephone conversations last week, Professor Sargent said he felt insulted by people who call him "non-Keynesian" or "right wing," terms that, he said, are based on a misunderstanding of his thinking. And he rejected attempts to categorize his views in simple slogans. He doesn't wear his political opinions on his sleeve. "They really don't matter in my research," he said. (Sommer 2011a)

Sargent then described himself as "a fiscally conservative, socially liberal Democrat" who emphasizes the importance of budget constraints and incentives: "There are trade-offs in efficiency and equality...and they lead to choices that aren't easy" (quoted in Sommer 2011a).

Selections from an interview with Sargent conducted by Arjo Klamer (1984) follow, with Klamer's words shown in italics:

*Were you political in [your Berkeley undergraduate] days?*

The students at Berkeley had a critical tone at least since the '30s. It was always a place that attracted critical and radical students. I was one in a quiet way. I read a lot of philosophy and political philosophy,

largely in courses, and I thought a lot about it when we discussed it. I was certainly very liberal, but I wasn't a political activist. I studied hard. (Sargent 1984, 59)

*Did you go to Vietnam?*

I went through ROTC, was commissioned, and then worked in the systems analysis office of the Pentagon. It changed me in some ways, made me more conservative. I came to understand more clearly the limitations of government actions. It was a learning experience. My conclusions came from seeing the whole decision-making process by which the US got into the war: how we evaluated the situation, how we processed the data from the war, how we understood our options, what we saw as the resources and costs in Southeast Asia, and what we thought was the likely outcome. We didn't do a very good job. There was an incredible volume of inefficient and bad decisions, which one must take into account when devising institutions for making policy. (ibid., 62)

*Which other economists have been important for you?*

Milton Friedman has been an important person in terms of educating me. I've never taken a class from him, but I've read his stuff. His work and Tobin's are important for me. Trying to figure out what those guys have done has been a continuing source of education for me. (ibid.)

*Are the political aspects an important motivation?*

I'm not really interested in politics. This rational expectations stuff is clearly not politically motivated. People from all sorts of different political perspectives contribute to it. It's more a technical revolution. One of the early lines of criticism was that this was just a new version of right-wing economics. The trouble with that criticism is that most of the guys were voting for McGovern; they were liberal democrats. More than half of the guys anyway. That's not the issue. These are technical issues about staring at models. If you look at the Keynesian models, if you stare at them hard, you get to the same point that Lucas was at. That means you're on to something.

No, it's certainly not politically motivated. It is technically motivated ... I don't dislike government intervention per se. When I came out of Berkeley and Harvard I had a really naïve view of what the government could accomplish. It was my own fault, but I was very pro-

intervention: the government should intervene in all sorts of things. I distanced myself from that, but I'm certainly not anti-government. Clearly, you need governments to do things; the question is how are you going to optimally devise institutions for those things. (ibid., 80)

We are inclined to agree with Tyler Cowen (2011) when he says that Sargent should be thought of as being in the “market-oriented” camp, and, given what Sargent says about his own views during his undergraduate and graduate school days, to view him as having grown somewhat more classical liberal. Sargent's works and remarks often have a certain classical liberal tone. Consider, for example, the speech he gave at the Nobel awards banquet in 2011, here reproduced in full:

Your Majesties, Your Royal Highnesses, Your Excellencies, Ladies and Gentlemen, My Teachers, My Students, and My Students Who Have Become My Teachers:

My good and dear friend Chris Sims and I thank you for recognizing the many women and men like us who use statistics and economic theory to understand how governments and markets can improve peoples' lives. I state 7 practical lessons taught by my beautiful subject, which investigates the consequences of time and chance and cooperation and competition and foresight and incentives.

1. Many things that are desirable are not feasible. (Carolyn)
2. There are tradeoffs between equality and efficiency.
3. Other people have more information about their abilities, their efforts, and their preferences than you do.
4. Everyone responds to incentives, including people you want to help. That is why social safety nets don't always work as intended.
5. When a government spends, its citizens eventually pay, either today or tomorrow, either through explicit taxes or implicit ones like inflation and defaults on debts.
6. It is feasible for one generation to shift costs to subsequent ones. National government debts and the U.S. social security system do that.
7. Most people want other people to pay for public goods and government transfers (especially transfers to themselves).

I'd like to thank Sweden for welcoming us and for being a country that values learning and education and people who read books and try to write better ones. (Sargent 2011b)

In a January 2009 *Chicago Tribune* editorial on the “fiscal stimulus package” proposed by the incoming Obama administration, Sargent was quoted as saying: “[T]he calculations that I have seen supporting the stimulus package are back-of-the-envelope ones that ignore what we have learned in the last 60 years of macroeconomic research.” In an interview conducted in June 2010, Sargent explained:

I said something like that to a reporter. I had just read an Obama administration’s Council of Economic Advisers document e-mailed to me by my friend John Taylor. I agreed with John that the CEA [Council of Economic Advisers] calculations were surprisingly naive for 2009. They were not informed by what we learned after 1945.

But I suspect that the council was asked to do something quickly, and they did what they thought was “good enough for government work,” as some of us said during my days at the Pentagon in 1968 and 1969. Back-of-envelope work can be a useful starting point or benchmark. But it does mischief when it is oversold.

In early 2009, President Obama’s economic advisers seem to have understated the substantial professional uncertainty and disagreement about the wisdom of implementing a large fiscal stimulus. In early 2009, I recall President Obama as having said that while there was ample disagreement among economists about the appropriate monetary policy and regulatory responses to the financial crisis, there was widespread agreement in favor of a big fiscal stimulus among the vast majority of informed economists. His advisers surely knew that was not an accurate description of the full range of professional opinion. President Obama should have been told that there are respectable reasons for doubting that fiscal stimulus packages promote prosperity, and that there are serious economic researchers who remain unconvinced. (Sargent 2010, 32-33)

In the same interview, Sargent was asked what modern macroeconomics has to say that is useful in managing and preventing financial crises. He responded:

A lot. In addition to the formal literature summarized in the Allen and Gale [2007] book, I want to mention the example of the 2004 book by Gary Stern and Ron Feldman, *Too Big to Fail*. That book doesn’t have an equation in it, but it wisely uses insights gleaned from the formal literature to frame warnings about the time bomb for a financial crisis set by government regulations and promises. Indeed, one of the

focuses of Gary Stern's long tenure as president of the Minneapolis Fed was steadily to draw attention to financial fragility issues and what the government does either to arrest crises or, unfortunately as an unintended consequence, to incubate them. (Sargent 2010, 30)

Also notable is that in his Nobel lecture, titled "United States Then, Europe Now," Sargent suggested that the debt-default history of the United States from 1790 to the 1840s was potentially instructive for modern Europe. The upshot is that when, in the post-revolutionary period, the U.S. central government bailed out the states, it created a precedent that led states again to become over-extended, in particular by funding infrastructure projects, and that it was a good thing that in the 1840s the central government did not bail out the states and left them to default on their debt. The lecture—particularly as delivered in Stockholm in December 2011 (Sargent 2011a), as opposed to the published version (Sargent 2012)—seems to suggest that perhaps the European Central Bank should not bail out member governments.

But Sargent supports some government measures related to the possibility of bank failures, as evidenced in the June 2010 interview:

I like to think about two polar models of bank crises and what government lender-of-last-resort and deposit insurance do to arrest them or promote them. . . . So without deposit insurance, the economy is vulnerable to bank runs. The situations where depositors don't run lead to good outcomes, but when there are bank runs, outcomes are bad. The good news in the Diamond-Dybvig and Bryant model, however, is that if you put in government-supplied deposit insurance, that knocks out the bad equilibrium. People don't initiate bank runs because they trust that their deposits are safely insured. And a great thing is that it ends up not costing the government anything to offer the deposit insurance! It's just good all the way around. (Sargent 2010, 30-31)

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## Thomas C. Schelling

by Daniel B. Klein

Thomas Schelling (1921–) shared the Nobel Prize in 2005 with Robert Aumann, “for having enhanced our understanding of conflict and cooperation through game-theory analysis.” Schelling’s most well-known books—books that, in my opinion, can scarcely be recommended too highly—are *The Strategy of Conflict*

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(1960a), *Micromotives and Macrobehavior* (1978a), and *Choice and Consequence* (1984). His other books include *National Income Behavior: An Introduction to Algebraic Analysis* (1951), *International Economics* (1958), *Strategy and Arms Control* (1961, coauthored with Morton Halperin), *Arms and Influence* (1966), and *Strategies of Commitment and Other Essays* (2007).

The Nobel committee summarized Schelling's contribution as follows:

A creative application of game theory to important social, political and economic problems. Showed that a party can strengthen its position by overtly worsening its own options, that the capability to retaliate can be more useful than the ability to resist an attack, and that uncertain retaliation is more credible and more efficient than certain retaliation. These insights have proven to be of great relevance for conflict resolution and efforts to avoid war. (Nobel Media AB 2005)

In a tribute called, "Salute to Schelling: Keeping It Human," Tyler Cowen, Timur Kuran, and I expatiated on our high admiration of Schelling. We wrote:

Thomas Schelling has been one of the, and many cases *the*, pioneer in developing the following ideas: coordination concepts, focal points, convention, commitments (including promises and threats) as strategic tactics, the idea that strategic strength may lie in weaknesses and limitations, brinkmanship as the strategic manipulation of risk, speech as a strategic device, tipping points and critical mass, path-dependence and lock-in of suboptimal conventions, self-fulfilling prophecy, repeated interaction and reputation as a basis for co-operation, the multiple self, and self-commitment as a strategic tactic in the contest for self-control. (Klein, Cowen, and Kuran 2005, 159)

We also wrote: "Schelling shows a commitment to social science as a part of the public culture, and consequently recognizes that the analyst may well be a factor in the game. An important theory may influence social affairs, thereby altering the situation and retiring its applicability" (*ibid.*, 162).

Schelling kindly responded to the questionnaire about his own ideological outlook and history. His response follows:

I was a high-school boy in the 1930s. My father was a naval officer, probably Republican by instinct but appreciative of Franklin Roosevelt, who had been Assistant Secretary of the Navy and protected the Navy from salary cuts. So my father favored Roosevelt. My mother's father was a banker and conservative, but my mother

didn't seem to have any political views. We were personally insulated from the Great Depression by my father's profession. I don't remember having serious political views of my own until I went to UC Berkeley as a sophomore in 1939 at age 18. At that point I became close friend of a former high-school classmate and he recruited me on the UC debate team, which was more of a communist club than a debate team. Several of my closest college friends were communists. I attended a meeting at which some "representatives" presented a line of some sort, which I argued against, and the speaker asked whether I was "one of them" and some of my close friends said I was not, and he left me alone. That, I think, is when I stopped wondering whether I should, as some friends insisted, join the party.

A postscript: three of my closest friends, male, and their three wives, were communists at the time; within a very few years the three men all quit the party but I think their wives did not.

I left Berkeley in January 1940 to go to Chile. I wanted a year abroad but there was a war in Europe, and a fellow at my rooming house was Chilean and talked me into Chile. My parents were in the Panama Canal Zone, my father back in the Navy; I was still eighteen and merited free transport to where my parents were, and they were eager to see me and agreed on my Chilean venture.

In Chile I decided the University was not for me and took a job as night watchman at the US Embassy. An FBI agent arrived to open up an FBI office in the Embassy; I showed him around Santiago and he asked me to be his personal assistant. I did that until early 1943, when I had stomach pains and the ambassador let me go home, which I did on a US merchant ship carrying copper from northern Chile. I went back to Berkeley where my former roommate (not one of the communists) was in medical school; he arranged a doctor's appointment; it was determined I had ulcers and was on a rigid diet for a year, and neither the army nor the navy would have me, it being generally thought that ulcers resulted from "stress" and in combat I'd be a liability. So I finished my bachelor's degree.

And there I majored in economics and had one professor in a small seminar—there were few men left on campus except for ROTC, and few women took economics—so the class was only a dozen. I was so inspired by that teacher, William Fellner, and I decided I'd become an academic economist. From there I went to Washington and had a great job in the Bureau of the Budget, from there to Harvard Graduate School in economics in the summer of 1946. I had, at Berkeley,

become a confirmed Keynesian, became even more so at Harvard. I no longer had any “radical” friends, although everybody I knew was “liberal” in attitudes toward race and economic activism.

I did well in graduate work, partly because of a good Berkeley education and partly because my 18 months in the Budget Bureau with two excellent economists as my bosses gave me a lot of experience. So I was awarded Junior Fellowship in the Society of Fellows at Harvard, one of the most prestigious fellowships in the world, and was set to spend the next three years studying with great freedom at Harvard.

A friend of mine phoned me from Washington in May or June of 1948 and said he had taken a job with something called the Marshall Plan and had an opportunity to go to Paris, but couldn’t go until he had a replacement, and wondered whether I’d like to spend the summer working for the Marshall Plan in Washington. I did, and worked for a man who was appointed Marshall Plan executive officer in Copenhagen, and he asked me to go along. I took leave of my Fellowship and went; at the end of the year I was invited to the central office in Paris, and went for sixteen months, when my Paris boss, who had moved to the White House along with Averill Harriman, said he’d arranged for me to be his assistant.

So I went to Washington and had a great time, first in the White House, then in the Office of the Director for Mutual Security (Harriman), mostly conducting negotiations with the Marshall Plan-NATO nations on their financial and military-equipment aid and their contributions to NATO forces. My politics didn’t have much to do with it; when Eisenhower replaced Truman, Harold Stassen replaced Harriman. I liked Stassen, thought he was one of the smartest men I had known. I didn’t notice any great difference in our foreign aid programs that the transition to a Republican Administration made. I was, of course, disgusted by McCarthy, whose insidious reach we felt even back in my Paris days.

In 1953 I went to Yale as associate professor of economics and worked on bargaining theory, what later became game theory, wrote on international economics, and didn’t have much occasion to change my political views. I spent a year, 1958–59 at the RAND Corporation, and my career turned to nuclear weapons policy, which didn’t much change my political views. I then migrated to Harvard and taught international economics, economic policy, and game theory. That’s where I voted for some Republicans, while still considering myself a democrat. I did a lot of consulting with the government on nuclear

weapons policy and mostly was satisfied with the Democratic Administration. No great changes in my social or political views there.

I spent thirty-one years at Harvard, and don't recall any significant change in my social-political views. Then I spent fifteen years at Maryland and still don't recall any influences on my social-political thinking. I had plenty to object to in Federal policy, especially Congressional, but I don't recall significant changes in my views.

I was always a "social liberal" as well as Keynesian economist. I favored allowing abortion, treating homosexuals as equals, admitting immigrants, doctor-assisted end-of-life measures, integrating races, ameliorating the "war on drugs", protecting women and their rights, etc. I think most if not all of my colleagues and friends shared my views. I cannot think of any serious change in my political or moral attitudes during the past fifty years.

I ran through the list of my 210 publications to see if any of them reflected my political-moral views—not policy issues but perspectives—and couldn't find any.

I'm afraid this has been a pretty uninteresting autobiography. (Schelling 2013)

Schelling's own assessment that his policy and political views have shown no particular changes is one with which I concur. My impression is that, despite having "voted for some Republicans," Schelling has, throughout his life, and perhaps especially from the Nixon years, supported the Democratic Party, and has worked in official capacities notably in Democratic arrangements.

There is a biography of Schelling by Robert Dodge (2006). The book is thoughtful, informative, and illuminating. Dodge has a background in military service and teaching, and "took time off from teaching to attend Harvard, earning a Master's in Public Administration at the Kennedy School of Government. It was there that he met Tom Schelling" (dust jacket of Dodge 2006). Dodge's treatment of Schelling is very admiring, as well as politically aligned with Schelling. The biography contains copious quotations from personal email communications with Schelling; Dodge (p. xiii) thanks Schelling for "the chance to enter his world so personally."

Again, Schelling's father was a naval officer. Schelling enrolled in the University of California at Berkeley in 1939. During his second year, Dodge writes, "the war in Europe was a year old and Schelling's father had returned to active duty in the Canal Zone. His older brother Robert was keeping up the family military tradition as a naval officer." "Schelling decided he wanted to study overseas," and

“he headed to Chile, stopping in the Canal Zone along the way to visit his parents” (Dodge 2006, 19).

In Chile, Schelling’s studies were not very demanding, and he took “a part-time job as a watchman at the US Embassy.” One afternoon on the job he answered a phone call telling that the Japanese had just attacked Pearl Harbor. “Schelling felt uncomfortable being the only American in Chile to know and believe America was at war” (Dodge 2006, 20). Dodge describes further developments in Schelling’s career:

With the United States at war, the FBI arrived to establish a counterespionage office in Chile, offering Schelling a job that he held for the next 15 months. The office grew from just Schelling and one agent to a staff of eight agents and a dozen secret *sub rosa* agents busy infiltrating organizations around the country. The intelligence community he had joined was an active participant in the war effort, their most urgent task being the discovery of secret signaling stations for German submarines. (Dodge 2006, 21)

Because of severe stomach cramps diagnosed as ulcers, which would prevent him from entering the Army, Schelling returned to the United States. “Returning to Berkeley looked like his best option, and he decided economics was the most important subject to study.” “He completed his undergraduate degree at Berkeley and began doing graduate work. . . . Graduate school was a time of transition when Schelling came to think of himself as a serious student, a scholar even. . . . One of Schelling’s professors, a Hungarian refugee named William Fellner, served as a role model of the ideal economist, and Schelling was determined to excel in the field. . . . With his first year of graduate school coming to an end, he was ready to move on and consulted Fellner about what he should do next. . . . Fellner said, ‘Go to Harvard. If you can’t afford it, I’ll help you’” (Dodge 2006, 21, 22, 23). Dodge describes the next developments:

Schelling was ready to do something more active, however, and since he had only just started graduate school and the military wasn’t going to take him, he decided he’d be of most use to his country in Washington, D.C. An old friend introduced him to someone in the Bureau of the Budget, which led to a job in the bureau’s Fiscal Division. President Roosevelt had died in April of 1945, shortly before the war against Hitler’s Germany was won, and there was a new man in the White House, Harry Truman. Schelling worked with two government economists responsible for knowing what President Truman was

on record of favoring and disfavoring, as well as for writing the annual budget message. He spent a lot of time on the Hill at Senate hearings...and met with senior government economists. It was a heady position for a young man with little formal training... (Dodge 2006, 23)

“By the spring of 1946, the war was over and, having spent a year and half at the Bureau of the Budget, Schelling was ready to return to graduate school,” and he headed to Harvard, where “the highlight of Schelling’s course work came from studying with Wassily Leontief” (Dodge 2006, 24-25, 26). In 1946 he published an article in *Econometrica* (Schelling 1946).

In 1948 “Schelling received Harvard’s prestigious Junior Fellowship award, which carried a three-year stipend,” but, Dodge continues, “He would never have the opportunity to use it. In mid-June 1948, he received a call” to take a job “in Washington, D.C., working on the Marshall Plan, which had been signed into law in April 1948 ... Finding the offer too tempting to decline, he and his wife were off to the nation’s capital, leaving the Junior Fellowship behind” (Dodge 2006, 27). After some months in Washington, he was asked to join Marshall Plan activities based in Copenhagen. “His work there consisted mainly of interpreting economic statistics for Marshall Plan administrators in Paris and Washington” (*ibid.*, 29). Schelling had married, and his wife’s “father worked as a labor attaché at the Marshall Plan’s central office in Paris. While Schelling’s work focused entirely on rebuilding the Danish economy, his father-in-law was fully engaged in the politics of the Cold War” (*ibid.*, 30). After a year in Copenhagen, Schelling was asked to join the Paris office, headed by Averell Harriman. The Schellings “moved there in 1949 and were soon enjoying a life of much greater financial ease,” with Schelling’s wife working for the U.S. Embassy. “Schelling worked with Robert Triffin, collaborating on what became known as the European Payments Union ... a clearinghouse bank to create multilateral trade between Marshall Plan countries” (*ibid.*, 32).

“By the time [in 1950] his Paris year was over, the Marshall Plan was winding down,” and the Schellings returned to the United States. “[W]ithin two days of arriving home in late 1950 he received two letters: one from his former boss at the Bureau of the Budget, asking Schelling to join him on the newly formed Council of Economic Advisors; the second an offer from the White House” (Dodge 2006, 34, 35). Schelling “chose the White House position. ... Schelling, who thought of himself as a Democrat, had been a great fan of Roosevelt, and on the few occasions he met Truman, he thought the president ‘terrific’” (*ibid.*, 35, 36). In the White House 1951–1953, Schelling “helped oversee an economic aid program similar to that provided by the Marshall Plan and, for the first time, dealt directly with Cold War issues” (*ibid.*, 37).

Meanwhile, in 1951, Schelling had published *National Income Behavior: An Introduction to Algebraic Analysis*. It was “a conventional book and, at the time, Schelling’s contemporaries viewed him as a conventional economist.” “Using the book as his thesis, he completed his doctorate in economics at Harvard in 1952” (Dodge 2006, 38).

By the time that Schelling, at age 31, had received his Ph.D., he had worked most of his adult life in government, relating to international and military affairs, and was still doing so. The 31-year old Thomas Schelling was a man who had been intellectually inspired by William Fellner—a role model who, as an academic, was himself unconventional, incorporating psychology and expectations into his economic analysis. But the 31-year old Schelling had shown primary interest in a career of high-level government work. It would be a mistake to think that over the ensuing years Schelling switched tracks, and opted *instead* for academics. In 1953 he takes an associate professorship at Yale, and in 1958 at Harvard, where he stays for 31 years, but the 1950s years are only the start of the heights of his influence and participation in government affairs, in issues of the Cold War and then the Vietnam War. Dodge’s book treats of Schelling’s main ideas, but it is chiefly a narrative of Schelling’s involvement and influence in public affairs. Dodge continues with chapters titled: “RAND,” “The Cold Warrior Emerges,” “Dr. Strangelove and the Hotline,” “Chicken Dilemma in Berlin,” “War Games,” “The Prisoner’s Dilemma of Nuclear Arms,” “Vietnam Escalation,” “Madman Theory,” “Concluding Vietnam,” and “Taboo”—this last being the taboo on nuclear weapons, the topic of Schelling’s Nobel lecture (Schelling 2006b)—as well as other chapters devoted to Schelling’s influence in government.

Dodge’s title, *The Strategist: The Life and Times of Thomas Schelling*, means by “strategist” not a theorist of strategy. Dodge (2006, 217) puts it this way: “The importance of the strategists’ role is unquestionable—whispering in the ears of the decision-makers or writing the papers they would see, defining the situations and problems that exist, presenting options and ways for survival or exploitation, remaining rational in a world where other interests and fears often hold sway.” Dodge remarks on Schelling’s entrance into, and rapid prominence among, an “exclusive group,” an “elite group,” “an elite fraternity,” a “special fraternity,” an “elite brotherhood” (ibid., 57, 60, 59, 60, 149, 208, 215). The elite group spoken of is the circle of trusted, influential strategists, whose primary work is classified and whose secondary work is for public consumption. Dodge concludes the biography with these words about Schelling: “He is an American hero for our times” (220).

It was not until I read Dodge’s book that I realized that Schelling’s academic career might be regarded as something that developed in tandem with his being an advisor to those in the most powerful roles of policymaking, particularly in the areas of weapons and international relations. Such an interpretation of Schelling

illuminates his academic career. He did some of what it took to gain eminence in academia; he started in conventional grooves (Schelling 1946; 1947; 1948; 1949; 1951). But he did not relish it, and soon thereafter started writing his own way. One feature of his own way is that he almost never engages the scholarship of others—he almost never cites or quotes anyone—and one can hardly expect to rise in the academic pecking order without engaging the influentials in one’s ‘field,’ either by developing their ideas or by taking issue with them. His landmark 1960 work, *The Strategy of Conflict*, which consists chiefly of material previously published from 1956–1959, helped him gain “an influence on policy analysis unsurpassed in the world of civilian consultants ... high into government circles” (Dodge 2006, 148), but it did not gain him any immediate academic kudos. In fact, the work was in large part a broad critique of formal game theory, quite anti-paradigmatic, and remains such.<sup>64</sup>

I don’t mean to suggest that the callings of writing and teaching were secondary to Schelling, but, still, academia served as a perch from which to act in the role of advisor. Schelling had been in residence at RAND in 1958–59, but he continued to work with RAND as a consultant to 1968. As for his time at Harvard, Schelling writes in his Nobel autobiographical essay: “For ten years the Center [for International Affairs, at Harvard] gave me freedom to write and to consult, and I spent much of my time, especially during the summer, doing advisory work for the government” (Schelling 2006a). In 1967 he was offered and nearly took a State Department position (Dodge 2006, 111).

After 1959, Schelling published scores of articles, but virtually none in economics journals until 1978,<sup>65</sup> when he published two articles in the Papers and Proceedings issue of the *American Economic Review* (Schelling 1978b; 1978c). His status as an academic luminary came belatedly, and only gradually. The interest Schelling received from academic communities was widely disparate—not at all concentrated within economics. The widespread interest, and citations, ramped up continually, especially after *Micromotives and Macrobehavior* (1978a). He received the Nobel Prize at age 84.

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64. As I see it, a central overarching lesson of *The Strategy of Conflict* (Schelling 1960a) is that an assumption of common knowledge is often inappropriate and misleading, and, correspondingly, that we need to appreciate and explore asymmetric interpretation (as I call it). This point about the book is made in Klein, Cowen, and Kuran (2005) and Klein (2012, 51 n. 10, 322); see Schelling (1960a, 21, 65-118, 163-169, 226, 246-248, 284-303).

65. Regarding this sentence about Schelling’s publications in “economics journals” over the 18-year period 1960 through 1977, I say “scarcely any” because in 1960 he published an article in *The American Economist* (Schelling 1960b), in 1969 he published an article in the Papers and Proceedings issue of *American Economic Review* (Schelling 1969), and in the same journal he published a (most interesting) book review (Schelling 1964). Also, four of the chapters he published during the 18-year period were in books that have “economic” in the title.

Whatever place the achieving of academic eminence has had in the core of Schelling's selfhood, he certainly did it his way.

I turn to Schelling's record of policy judgments and ideological outlook. His principal areas of research and influence have been in weapons and war. He has been denounced as a warmonger and such. Such condemnations, I suspect, are ultimately based primarily on the fact of his close and sustained participation with high-level officials engaged in war (hot and "Cold"), particularly during the period 1958–1968, as opposed to being based on anything Schelling actually said, whether in his public writings or in classified discourse. This aspect of Schelling's ideological character—as well as related events such as Schelling's break with Henry Kissinger in 1970 (see Dodge 2006, 157ff.)—I leave aside.

After the Vietnam War, Schelling focused much less on weapons and war. A series of policy topics drew his attention. Here I briefly treat a number that seem to stand out.

**The draft.** In the spring of 1967 Schelling led a study group at Harvard on the manning of the military, and in the fall of 1967 a group document titled "On the Draft," apparently principally authored by Schelling,<sup>66</sup> was published in *The Public Interest* (Schelling 1967). The article discusses various aspects of the issue, and is generally reserved and establishment-oriented. Still, when it comes to the issue of paying for service and inducing people to sign up voluntarily, as opposed to conscripting them, the drift clearly seems to be in favor of considering reform in the direction of making service voluntary. The piece might, therefore, be regarded as an establishment-oriented opening for more outspoken professors to mount a direct and influential assault on conscription (see Henderson 2005 on the role of economists in ending the draft).

**Unintended outcomes.** Much of Schelling's renown comes from his set of papers that explore discernible social patterns that no one particularly intended and that might well be unsatisfactory in some important sense, a set of papers particularly represented by *Micromotives and Macrobehavior* (1978a). Some people have cited these papers as elaboration of 'market failure' and a need for government intervention. In these papers, Schelling, however, does not infuse the discussion with any strong bent toward government intervention in voluntary private affairs—though neither does he speak against such intervention. There are a few points to consider. First, in the opening chapter of *Micromotives and Macrobehavior*, Schelling gives several pages (especially pp. 20-29) to acknowledging the "amazement" (p. 21) that one might feel in pondering how well the extended

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66. As published in *The Public Interest*, the listed author is "A Harvard Study Group," but we may conclude that Schelling is the principal author because he led the group, because the piece contains a lengthy postscript signed by Schelling, and because the piece is included on a list of Schelling's publications.

economic order works. The acknowledgment is highly qualified and somewhat grudging, but he is making a big point, at the start, to say that the book is not intended as an indictment of free-market principles. Second, Schelling describes possible pitfalls of voluntary behavior, but it is plain enough that he focuses on understanding the pitfalls, rather than the successes, not because unsatisfactory outcomes are typical or pervasive but simply because it is the unsatisfactory outcomes that call for attention and perhaps remedial action. Third, in a great many of the examples where Schelling suggests a need for leadership or guidance, the context remains voluntary, for example, a seminar leader who might require attendance or the National Hockey League requiring helmets; similarly, when governmental authorities make rules for the use of the government property that they administer, such as a road, such rules are not aptly described as restrictions on voluntary action. Fourth, some of Schelling's applications, notably on segregation, carry a message that even mild, unobjectionable preferences might produce macro patterns that we are unhappy with, and that maybe we just have to learn to live with the results, rather than trying to manipulate them; in this respect Schelling advances Adam Smith's therapeutic program of learning to cope in a liberal, cosmopolitan social order. Fifth, Schelling does not turn his attention to politics and government as settings for the types of pitfalls analyzed, but it can at least be said that neither does he deny the fertility of application in such settings; furthermore, the whole style of his thinking naturally lends itself to such application. For Schelling, everything human is ripe for failure. In sum, although Schelling is a leading thinker in the ideas of spontaneous *disorder*, the ideological bent in these writings is not especially statist, and perhaps it is less so than some might expect.

**Victimless crimes and organized crime.** In his questionnaire response reproduced above, Schelling writes of his favoring “ameliorating the ‘war on drugs,’” meaning, presumably, movement toward liberalization. Such a stance comports with Schelling's writings (e.g., Schelling 1984, chs. 7-8) on organized crime (work that was originally undertaken at the instigation in 1966 of the President's Crime Commission; see Dodge 2006, 126) and, with collaborators, on conceptualizing different drug control regimes (MacCoun, Reuter, and Schelling 1996). Again, Schelling is not outspoken, but the reader clearly detects a message that many prohibitions have adverse consequences that are not redeemed by offsetting benefits. Related here are Schelling's great, influential papers on the multiple self and self-constraining behavior (see, for example, Schelling 1984, chs. 3-4), but in those works Schelling shows respect for the dignity of the individual and hardly ever comes across as interventionist. Schelling is concerned chiefly to help the individual or friends and associates to find ways to cope—at least when it comes to illicit drugs, prostitution, and gambling.

**Smoking.** In this area of policy, Schelling's tune is somewhat different than in illicit drugs, prostitution, and gambling—a difference that might merely reflect differences in respective status-quo policies. Smoking policy is the area of domestic policy where Schelling has most shown a favor for the initiation of coercion. Once again, his entrance into the area came at the instigation of officialdom, the formation of a National Committee on Substance Abuse, of the National Academy of Sciences (Dodge 2006, 163; Inglehart 1990, 110). Schelling would become the director from 1984 to 1990 of Harvard University's Institute for the Study of Smoking Behavior and Policy. In an interview, Schelling says that most of the people on the committee supposed that “there was very little that individuals could do for themselves,” while Schelling made a point of helping people learn to cope and overcome their problems (Inglehart 1990, 110). It is surely reasonable to think that within his social context Schelling has had the tendency of putting a brake on those of an interventionist bent around him (a tendency, by the way, that might have an analogue in Schelling's classified participation in weapons policy). Still, Schelling comes out in favor of hiking taxes on cigarettes and of imposing restrictions on smoking in private establishments (see Inglehart 1990, 114-118), and he has written in interventionist tones about the externalities of smoking (Schelling 1986). In joint work, Schelling and his coauthors studied compliance with Cambridge, Massachusetts's no-smoking law, imposed on private establishments, reporting low compliance and recommending, among other things, that health officials do more to monitor compliance, e.g., by inspection of the premises, to crack down on non-compliance and to ensure no-smoking signage (Rigotti et al. 1993, 231).

**Climate change.** Schelling took up the topic of global warming again at the instigation of officialdom, resulting in Schelling's participation in a study by the National Academy of Sciences (Dodge 2006, 168). Schelling has written a number of accessible pieces on global warming, including an academic lecture (Schelling 1992), an entry for *The Concise Encyclopedia of Economics* (Schelling 2002), and an op-ed in the *Wall Street Journal* (Schelling 2006c). Again, within his social context, Schelling has probably had a ‘cooling’ effect. While affirming that there is a greenhouse effect, he highlights the many uncertainties surrounding other effects in play and the consequences of climate change. He also highlights the difficulty of trying to reduce emissions, as well as alternative ways to mitigate or reverse warming. He says, “It is improbable that the developing world, at least for the next several decades, will incur any significant sacrifice in the interest of reduced carbon, *nor would it be advisable*” (Schelling 2002, emphasis added). Dodge (2006, 169) writes: “His views [on climate change] didn't always make him popular with those who shared his awareness of the process that was taking place.”

Schelling has signed a number of classical liberal-oriented petitions and, to my knowledge, no contrary petitions, except, arguably, the “Purple Health Plan” (Kotlikoff 2011). He has signed petitions for market-oriented healthcare reform, liberalized immigration, allowing prediction markets, against protectionism, and against anti-“sweatshop” measures (Hedengren et al. 2010).

Both professionally and ideologically, Schelling is a mix of tendencies, and the result is a persona that defies common character types. With the following words Schelling ends *Choice and Consequence* (1984, 346): “Like the question, Do creatures reproduce themselves by way of genes, or do genes reproduce themselves by way of creatures?—Do I navigate my way through life with help of my mind, or does my mind navigate its way through life by the help of me? I’m not sure who’s in charge.”

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## Myron S. Scholes

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Myron Scholes (1941–) was born and raised in Ontario. His father, born in New York City, was a teacher in Rochester. He moved to Ontario to practice dentistry in 1930. Scholes’s mother moved as a young girl to Ontario from Russia and its pogroms (Scholes 2009a, 235). His mother and his uncle ran a successful chain of department stores. Scholes’s “first exposure to agency and contracting problems” was a family dispute that left his mother out of much of the business (Scholes 2009a, 235). In high school, he “enjoyed puzzles and financial issues,” succeeded in mathematics, physics, and biology, and subsequently was solicited to enter an engineering program by McMaster University (Scholes 2009a, 236–237). Scholes credits his mother with making him “become interested in economics and, in particular, finance” (Scholes 2009a, 237).

About his deciding whether to become a physicist or an economist, Scholes reflected:

While working for my uncle’s firm, I designed a puzzle for a magazine sold to teenage girls. I worked on this puzzle for weeks to make it interesting but difficult. When I presented it to the board and editorial committee of the magazine, no one understood what I had done. I decided then and there that I really enjoy working with people, being involved in activities that were direct and not too abstract, removed or singular. I came to realize that I loved creating with others and working on problems that had real-world application. For me, the most rewarding activities have always been conceptualizing difficult problems and then immersing myself in the details to test my theories. (Scholes 2009a, 238)

Scholes went to McMaster for his undergraduate studies in economics and liberal arts. He recounted:

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McMaster turned out to be a fortuitous choice. Because it was such a small school, Professor McIver, a University of Chicago graduate in economics, worked closely with me in my studies. He directed me to read and understand the works of many classical economists, including the more contemporary teachings of Milton Friedman and George Stigler, two subsequent Nobel Prize winners in economics. I was impressed with their writings. (Scholes 2009a, 238)

Upon graduation, Scholes decided to enter business school, because of his fondness of economics and his decision to enter into his uncle's family business. In considering graduate school, he knew where he wanted to go: "I wanted to go only to the University of Chicago, where Stigler and Friedman were teaching and conducting research. . . . My thought at the time was that this would enable me to 'steal' knowledge from them, but I subsequently realized that I had to contribute to the interchange of ideas to enable me to learn from others" (Scholes 2009a, 238-239).

Working as a computer programmer at the University of Chicago, Scholes assisted professors in developing research design. Some of his first clients were Merton Miller and Eugene Fama. "They became my mentors, shaping my understanding of finance. And, fortunately, both became lifelong friends" (Scholes 2009a, 240).

After earning his Ph.D., Scholes taught at MIT, where he met and began collaborating with Fischer Black on financial economics. A little over a decade later, he returned to the University of Chicago, where he focused on taxation (Scholes 1998). Since 1983 he has been on the faculty at Stanford University.

Early on in his life he became fascinated with the stock market, and this interest would lead to his Nobel Prize-winning work (Scholes 1998). Along with Robert C. Merton, Scholes won the 1997 Prize "for a new method to determine the value of derivatives." Most of his work is technical, but Scholes has made policy-related comments in interviews and debates, and he seems mostly to favor free markets.

Along with Fischer Black—who would most likely have been a co-winner had he still been alive—Scholes developed the Black-Scholes formula for pricing stock options. Toni Whited summarizes:

Scholes's contribution to the formula was the logic used to solve the equation—logic that is still taught to students studying finance. Black and Scholes noted that the differential equation did not involve the expected return on the stock and that, therefore, any expected stock

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return is consistent with the option price, including the risk-free rate of interest. (Whited 2008)

In Scholes's words, the equation "prices options on common stock and provides a methodology to value options on securities generally. It can be used to measure risk and transfer risk" (Scholes 2009b).

Scholes's work also included testing the capital asset pricing model and analyzing optimal responses and effects of taxation (Whited 2008).

Scholes's work on derivatives set him up for criticism in the wake of the 2008 financial crisis, but Scholes says, "I haven't changed my ideas" (Scholes 2009b). An article in *The Economist* magazine cites Scholes as a continued proponent of derivatives:

But derivatives have defenders too. Used carefully, they are an excellent—some would say indispensable—tool of risk-management. Myron Scholes, another Nobel prize-winner, says a ban would be a "Luddite response that takes financial markets back decades." (Economist 2009)

In a panel discussion at New York University, Scholes "didn't exactly accept responsibility, but neither did he give a blindered, Chicago-style defense" (Fox 2009). He favored deleveraging, but said current deleveraging was failing, as it was driving down asset values, as well. He also said models fail to take fully into account market-wide risk: "Risk aggregation is not linear. It's nonlinear" (quoted in Fox 2009). Scholes did, however, strongly react against the idea of a global regulator: "If we internationalize everything, we end up with rules that stifle freedom and innovation" (ibid.).

In a 2008 debate with Joseph Stiglitz organized by *The Economist*, Scholes supported the proposition that heavy regulation would be a mistake in the wake of the financial crisis, advocating light regulation instead: "[C]apital requirements and pricing flexibility are the correct way to regulate banks going forward." Scholes argued that market failures "do not lead to the conclusion that re-regulation will succeed in stemming future failures. Or that society will be better off with fewer freedoms." Proponents of heavy re-regulation, he said, "fail to account for the vast increase in the wealth of the global economy that has resulted from the freedom to innovate" (Scholes 2008).

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## Theodore W. Schultz

by E. C. Pasour, Jr.<sup>67</sup>

Having grown up on a 560-acre farm in South Dakota, Theodore Schultz (1902–1998) maintained his farming roots throughout his economics career (University of Chicago 1998). His early work on the economics of U.S. agriculture was published mainly between 1932 and 1951 (Gardner 2006, 326). This work laid the foundation for his later work in economic development and human capital, particularly in agriculture, for which he was awarded the Nobel Prize (W. Arthur Lewis was a co-recipient). Schultz is the only agricultural economist to be awarded a Nobel Prize in economics.

Schultz stands out among Nobel laureates in economics in terms of his pre-college formal education. He completed elementary school but never went to high

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67. North Carolina State University, Raleigh, NC 27607. I appreciate the help of Hannah Mead in providing valuable references and preliminary work. Dale Hoover and Loren Ihnen also provided helpful comments.

school.<sup>68</sup> While farming on his home farm, he attended a short course at South Dakota State College, where he showed such promise that he was encouraged to enter the college as a regular student, which he did (Johnson 1998, 212-213). Schultz earned his bachelor's degree from South Dakota State in 1927 and his Ph.D. in agricultural economics from the University of Wisconsin in 1930. In his short autobiographical essay for the Nobel committee, Schultz wrote:

I managed to enter college in 1924 and I was permitted to complete my college work in three years. The unorthodox economics of the University of Wisconsin during those years appealed to me. Despite my lack of proper credentials I was accepted by the graduate school. My intellectual debt to Professors Commons, Hibbard, Perlman and Wehrwein is large. (Schultz 1992a/1980).

Schultz's first teaching position was at Iowa State College, and within two years of his arrival in 1930, he was made acting chair of the Department. As head of the Department of Economics and Sociology, Schultz built a national reputation by introducing quantitative statistical techniques to American agricultural economists and "threw himself" into the new discipline of econometrics, testing economic theory with data (Burnett 2011, 376-377).<sup>69</sup>

Schultz's domestic agricultural policy views, especially early on, were highly interventionist. In his work on domestic agricultural policy during WWII, Schultz was quite critical of the decentralized price system and envisaged a large role for government in U.S. agriculture. Moreover, government intervention continued to play a key role in his approach to domestic farm policy following the war. But Schultz's views shifted notably in the classical liberal direction in his economic development work, which emphasized distortions by government programs affecting farmers in low-income countries. Although Schultz's view of the role of government evolved over time, focusing more on problems that arise whenever government action is substituted for markets, he never became an adherent of a strong presumption of *laissez faire*.

Schultz's early interventionist views on the role of the state affecting U.S. agricultural policies are spelled out in his book *Redirecting Farm Policy*, published during WWII. The book proposes that "parity prices," the linchpin in im-

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68. Many farm workers were in the military during WWI and Schultz's father wanted him to help with farm work. Further, his father's view was that if he left the farm and continued his education, he wouldn't return to the farm (Graves 2004).

69. Agricultural economists and other economists were in the same department at Iowa State, and agricultural economists there emphasized economic theory more than in most other departments of agricultural economists in land-grant universities.

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plementing New Deal farm policies, be replaced with “fair prices”—“that rate of payment which a farmer laborer, or capitalist receives for his services and use of his property is sufficiently high to provide each with an adequate income” (Schultz 1943, 14). The following quotations from the 1943 book describe the purported advantage of central controls in U.S. agriculture by the U.S. Department of Agriculture.

A highly decentralized farm price system administered, in the main, by private agencies has many serious shortcomings. (Schultz 1943, 39)

There is no reason why Congress should not be advised and possibly approve each year the production goals that best reflect the amount which agriculture is capable of producing and the requirements of society. This having been done, the Department should be authorized to use its administrative machinery to attain the production goals as established. . . . This procedure in all probability will give results which, taken as a whole, will be much superior to what takes place when private individuals make estimates, usually acting on fragmentary information and all too often on hunches. . . . The second step in employing the farm price mechanism to allocate farm resources is to establish a system of forward prices. . . . Forward prices are a gigantic futures market operated to coordinate and direct agricultural production. (Schultz 1943, 42-44)

Schultz’s forward pricing idea emerged in the 1973 farm bill (P.L. 93-86) as target prices with compensatory payments. Price supports, including Schultz’s forward pricing that affect output or prices are not consistent with free trade. Despite the inconsistency, Schultz even early in his career, was a firm believer in the beneficial effects of international trade and sought to educate the public about the principles of trade following the disastrous effects of the Smoot-Hawley Tariff Act (Burnett 2011, 376).

It is difficult to know how much of Schultz’s interventionist thinking at this time was colored by the exigencies of wartime. In a paper published shortly after the war, however, he continued to envisage a large role for government in U.S. agriculture and to promote a wide range of government policies:

Can conservation be left solely to market forces? The answer, of course, is no. Will a market economy provide stocks and storages necessary to stabilize our gigantic livestock industries? Again the reply is in the negative. What about credit, housing, farm ownership, medical facilities, education, research and experimental work, old age and

retirement opportunities? None of these can be left wholly to the market economy. (Schultz 1946, 26)

In 1943, after 13 years at Iowa State, Schultz left in the wake of the widely publicized oleomargarine affair—a bitter battle over academic freedom. In 1942 the U.S. Secretary of Agriculture requested that Iowa State publish a series of publications on government food policy pointing out problems with current farm policies. One study in the series, “Putting Dairying on a War Footing” (Brownlee 1943), a study approved by a committee of which Schultz was a member, attracted the ire of the butter producers. The work argued that margarine compared favorably with butter in nutritional value and palatability; it argued against legal restrictions on margarine production and marketing and on margarine use during the war. When the dairy industry fiercely objected, the controversy became a national story and farm groups called for Schultz’s resignation. The College administration attempted to block publication of the pamphlet and the President of Iowa State failed to back Schultz. Schultz managed to get the research published but, he resigned from Iowa State and accepted a position in the Department of Economics at the University of Chicago (Passell 1998).

“That incident provoked some serious soul-searching,” recalled D. Gale Johnson, a long-time colleague of Schultz (quoted in Passell 1998). One might conjecture that Schultz’s personal experience with politicizing the production, marketing, and use of margarine and butter had an effect on him. While at Chicago, Schultz became much more cautious about recommending government action. Schultz was on the executive committee of a group, including Milton Friedman, that met in 1946 to begin work on sponsoring a “Free Market Study” with the objective to promote scholarly arguments as to how a modern society might be organized to maximize individual liberty (Burnett 2011, 39). That same year, Schultz became head of the economics department at Chicago and would remain in that position until 1961—formative years for the so-called Chicago School. All told, I surmise that shortly after age 40 Schultz underwent a pronounced ideological shift toward classical liberalism, reflected in his later work.

At Chicago, Schultz studied the process of economic development for farmers in low-income countries—the work for which he received the Nobel Prize. He began to emphasize the harmful effects of government policies on agricultural producers. His contribution rested on two major points: (1) farmers in developing countries, though often illiterate, were rational and made efficient use of their resources; and (2) his work increased understanding of human capital and its role in production (Johnson 1998, 209). David Henderson summarizes Schultz’s conclusion:

[P]rimitive farmers in poor countries maximize the return from their resources. Their apparent unwillingness to innovate, [Schultz] argued, was rational because governments of those countries often set artificially low prices on their crops and taxed them heavily. ... A persistent theme in Schultz's books is that rural poverty persists in poor countries because government policy in those countries is biased in favor of urban dwellers. (Henderson 2008)

In contrast to the stress on government planning seen in his early work on U.S. agricultural policy, Schultz's work in economic development emphasized the importance of entrepreneurship—even by small producers in low-income countries—and the distortions in production and marketing stemming from government programs of various kinds.

First, *economic disequilibria are inevitable*. ... [T]he function of farm entrepreneurs in perceiving, interpreting, and responding to new and better opportunities cannot be efficiently performed by government. (Schultz 1978, 15, emphasis in original)

[T]he unrealized economic potential of agriculture in many low income countries is large. ... [F]or want of profitable incentives, farmers do not make the necessary investments, including the purchase of superior inputs (for example, seeds, fertilizer, and machinery). I argue that...interventions by government are the primary cause of the lack of optimum economic incentives. (Schultz 1978, 17)

In short, Schultz saw governments as harming producers in low-income countries by obstructing market incentives and discouraging technological advancements, thereby impairing the profitability and success of agriculture (Schultz 1978, 16-17). The emphasis on government failure in analyzing the effect of government policies on producers in low-income countries stands in bold contrast to his earlier, statist approach to U.S. agricultural policy during WWII. In the later years, Schultz elaborated an idea of entrepreneurship as “the ability to deal with disequilibria,” and published an article in the *Journal of Economic Literature* entitled, “The Value of the Ability to Deal with Disequilibria” (Schultz 1975; see also Schultz 1990).

Schultz also used agriculture as an area for applying Chicago notions of ‘political markets.’ Political markets are said to function to benefit individuals and groups who have access to and can influence the political process. Examples include export taxes on farm products, the use of state marketing boards for farm

products at the expense of the farmer, and import restrictions on farm inputs (Schultz 1978, 21).

Although Schultz's skepticism of government increased as he studied poverty in low-income countries, he continued to find an important role for government in funding agricultural research, primary education, and some welfare activities (Schultz 1993, 37-38). Further, in Schultz (1961, 14), he supported subsidizing rural workers to move to urban areas in order for their children to have better employment options.

Schultz had a lifelong dedication to the importance of developing human capital—capital produced by investing in knowledge—and he helped introduce human capital and the importance of education to development economics (Ranis 1979, 1389). His theory of human capital focused on the effects that investing in health and schooling had on population quality; he emphasized that education accounts for much of the improvement (Schultz 1992b/1980).

Schultz's work on the importance of education for low-income producers focused on the importance of knowledge rather than on the appropriate role of the state in financing and producing such knowledge. That is, despite the often shocking state of government-run schools in some low-income countries he did not analyze governmentally generated distortions in the financing and production of educational output as he did in the production and marketing of farm products in low-income countries. But on the basis of more than half a century of experience in agricultural economics and the administration of research, Schultz concluded: "It is true even in the United States that the more heavily the University is dependent on the patronage of government, the less is the freedom of inquiry in the social sciences" (Schultz 1979, 464). In the same paper, Schultz expressed his sense that rent seeking by groups throughout the economy means that government efforts, ostensibly to correct market failures, are more likely to make matters worse:

There is a pervasive intellectual and popular commitment to the belief that the failures of the market are the primary source of that which is wrong with the economy. Each interest group has its own list of such market failures. To overcome them, an increasing number of organized groups seek protection and redress by means of public programs and institutions created by government. Business groups have a long history of serving their special interest by this means. Organized labor and organized commodity groups have been doing this on behalf of their special interests for decades. This pluralistic process is currently confounded by the politics of health, of the aged, of poverty, of income transfers, of energy, of environmental politics, and others. The resulting modifications of the political economy in

general do not correct actual market failures but tend to bring about other forms of economic failure. (Schultz 1979, 467)

Despite Schultz's ideological evolution as his work shifted to economic development and human capital in low-income countries, his views on U.S. agricultural policy did not shift as much as one might have expected in view of his stress on harmful interventions by government in his later work. In 1974 he looked back three decades at his work on U.S. farm policy, focusing particularly on his war-time book *Agriculture in an Unstable Economy* (1945), written, Schultz says, while he "was, no doubt, influenced all too much by Keynesian thinking" (Schultz 1974, 2). Schultz described his old policy proposals, including his compensatory payments approach for farm commodities—the latter described as "both brilliant and naïve" (Schultz 1974, 9). Schultz suggested that, as a younger man, he did not well understand how his work would be put to use by those who demand economic research:

On policy I am less sanguine than I was in 1945, partly because of more doubts about economics and partly because of the fragmentation of policy. Economic policy is a tricky business. The demand for it is ever so fickle; what is in fashion today is old hat tomorrow.... . . . Each new public agency has a claim to a small fragment of economic policy and old agencies with their entrenched programs seldom fade away. Both demand justification for their respective programs and economists promptly supply models to satisfy these demands. . . .

Young economists have a marked comparative advantage as suppliers of policy proposals. They are bright and adjustable to the changes in demand; they are well equipped to produce the models that are demanded; and entry into this business is easy. . . .

Out of my analysis of economic fluctuations, there emerged the idea of compensatory prices for agriculture. It was a new idea. . . .

Although the underlying economic analysis is solid, it has not been a feasible policy proposal. Herein lies an important lesson about policy. I was fully aware that my compensatory payments entailed governmental intervention. I devoted several pages to three difficulties that could be anticipated. One of these pertains to our government viewed as an institution. I noted, "there is always the question whether in our democratic form of government such a proposal can be put to good account. Will not pressure groups use compensatory payments to raid the public treasury?" I argued that compensatory payments were less vulnerable than alternative policies. Although experience

since 1945 is ambiguous on this point, what I said reveals the naiveté of my youth. The moral is clear: economists are like mice putting a bell on the cat. The cat has its own taste for mice and economists are caught by their commitment to preferences as given. (Schultz 1974, 8-9)

One can read parts of Schultz's substantial oeuvre, as in the work just cited, and find ample evidence to support the view that he was a strong supporter of government action, especially in his early work in domestic agricultural policy. He continued to support some interventionist domestic farm programs throughout his career. On the other hand, his later work on economic development emphasized government failure problems and is supportive of decentralized markets. Thus, there is substantial evidence to support the conclusion that he migrated ideologically in the classically liberal direction during the second part of his career as his work shifted from U.S. agricultural policy to the economic development process in low-income countries. It is ironic that he was viewed by most agricultural economists as a strong advocate of the free market when his support for government intervention was strongest in domestic farm policy. Despite his mixed record, he is remembered as a defender of markets and one who stressed government failure in his research in economic development.

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## Reinhard Selten

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Reinhard Selten (1930–), born in Breslau, a German city in what is now Poland, was raised in a troubled period of German National Socialism, anti-Semitism, and war. His father, who was Jewish, blind, and an entrepreneur, operated a successful “reading circle” business. He eventually was forced to sell it under Nazi law. After the war, Selten’s life was marked by avoiding the Soviet army, international migration, poverty, physical farm work, and a stay from official school work. However, when he returned to school, he excelled. Selten had a knack for

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mathematics, something he noticed in high school. From the age of 15 he taught himself mathematics. However, he knew becoming a mathematician was not in his future (Selten 2009, 178).

High school was also Selten's first exposure to economics. He reflected in an interview:

I was reading much world literature, belletristic, but also books about special subjects, nonfiction. And when I was in my second last year of high school I also had a full time job as a librarian in the America-house in Malsungen. At this time I got used to read[ing] English. In the library they had many books on different subjects, psychology, economics. - I cannot remember which topic was the most exciting one, I read a lot of books, among others a history of economic thought by Heimann, my first exposure to economic theory. (Selten and Selten 1997, 2)

After high school, Selten received his degree in mathematics at Frankfurt University but switched to economics and began working with Heinz Saueremann. It was at this point that Selten began turning away from "naïve rationality." After reading Herbert Simon, he "was immediately convinced of the necessity to build a theory of bounded rationality." He concluded: "Behavior cannot be invented in the armchair, it must be observed in experiments" (Selten and Selten 1997, 4). Selten considers himself a "methodic dualist," developing both pure theory based on completely rational subjects and descriptive theories based on observed boundedly rational behavior (Selten 2003a, 755).

Selten also collaborated extensively with John Harsanyi, particularly on games involving incomplete information. Selten developed the idea of trembling-hand perfection, in which equilibria hold despite a small chance of perturbation (Damme 2008). Selten won the Nobel Prize in 1994, along with Harsanyi and John Nash, "for their pioneering analysis of equilibria in the theory of non-cooperative games."

Selten describes himself as an independent thinker: "I was always skeptical about authority, about things which were told by authorities, because I was living in a country and in a time where the authority was utterly wrong, in my view. And therefore I distrusted, I feared authority, I also fear it today. I am in a very, very fearful, I mean maybe more than other people, but I distrust authority. That makes me more independent and also some part of rebellious, ... I'm a maverick" (Selten 2004).

In his Nobel autobiography, Selten wrote:

I found myself in opposition to the political views shared by the vast majority of the population. I had to learn to trust my own judgment rather than official propaganda or public opinion. This was a strong influence on my intellectual development. My continuing interest in politics and public affairs was one of the reasons why I began to be interested in economics in my last high school years. (Selten 1995)

Yet, Selten does not seem to have explicated specific ideological views, at least not in English. And aside from a long-held support for the Esperanto movement (Selten 2003b), Selten does not seem to have made explicit political statements.

Selten can be reserved in his analysis. For example, regarding leniency clauses for whistle-blowers on cartels, Selten and his co-authors Jose Apesteguia and Martin Dufwenberg wrote:

We, tentatively, venture the following: Our findings in this paper provide no reason for Gary Spratling and Mario Montito to feel disappointed with the leniency clauses that have recently been incorporated into the anti-trust legislation in most member states of the OECD. (Apesteguia, Dufwenberg, and Selten 2007, 158)

In applying game theory to international relations, Selten has found that political mass movements are difficult for game theory to predict (Selten 2004). Matthias Hild and Tim Laseter note that “Professor Selten has been an active international consultant to both industry and government, and a prolific author of academic publications” (Hild and Laseter 2005). They continue:

Professor Selten has applied his research to numerous high-stakes problems in business and politics. During the early years of the Cold War, he belonged to a pioneering group that developed models of nuclear deterrence under a contract with the U.S. Arms Control and Disarmament Agency (which later became the U.S. State Department’s Bureau of Arms Control). More recently, he worked with a group of military experts to apply game theory to the strategic analysis of the Kosovo conflict. (Hild and Laseter 2005)

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## Amartya Sen

by Jason Briggeman

Amartya Sen (1933–) was born in Santiniketan, West Bengal. After being educated in India and Great Britain, Sen commenced an illustrious career, becoming well known for his research in social choice theory, political philosophy, and development economics. Sen has held professorships at Jadavpur University, the University of Delhi, the London School of Economics, Oxford University, and

Harvard University. He was awarded the Nobel Prize in 1998 “for his contributions to welfare economics.”

Sen has, repeatedly, energized the field of development economics with his investigations into poverty, hunger and famines, and gender inequality (e.g., Sen 1982; 1992a). As a political philosopher he is creative and challenging, and there too his work has often been seminal (e.g., Sen 1970; 1992b). Sen has, with great vigor and a humane spirit, consistently addressed the most important issues and brought his talents to bear on pressing concerns.

It seems that Sen has undergone a significant ideological migration. At least as late as age 25—the year he received his doctorate from Trinity College, Cambridge—Sen believed that India should impose “an economy with socialised means of production and an absence of property income” via “state planning” (Sen 1959). Today, however, Sen seems to adhere to a conventional social democratic outlook, often evincing “an unmistakably positive attitude to markets” (Peacock 2010, 57).

From 1951 to 1953, Sen attended Presidency College in Calcutta. In his Nobel autobiography, Sen writes:

By the time I arrived in Calcutta to study at Presidency College, I had a fairly formed attitude on cultural identity (including an understanding of its inescapable plurality as well as the need for unobstructed absorption rather than sectarian denial). I still had to confront the competing loyalties of rival political attitudes: for example, possible conflicts between substantive equity, on the one hand, and universal tolerance, on the other, which simultaneously appealed to me.

The student community of Presidency College was also politically most active. Though I could not develop enough enthusiasm to join any political party, the quality of sympathy and egalitarian commitment of the “left” appealed to me greatly (as it did to most of my fellow students as well, in that oddly elitist college). (Sen 1999a)

Richa Saxena, a biographer of Sen, writes that “in the 1950s... Amartya had been under enormous pressure from his family to join a political party. He had refused, even though he was substantially influenced by the Leftist view of selflessness and social equality. He wanted his ideas to impact through intellectual force rather than hands-on activism” (Saxena 2011, 51).<sup>70</sup> Sen did become a member of the All India

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70. Saxena (2011, 34) describes some of the partisanship within Sen’s family: “Calcutta in those days was a deeply leftist, politically charged state and these influences existed within Amartya’s own family as well. One of his uncles who belonged to the Congress Socialist Party had been put into preventive detention by the British and spent six years in prison without trial, while another cousin, in the Communist Party, was also in jail.”

Students Federation (AISF) while a student at Presidency, said Federation being the student wing of the then-undivided Communist Party of India. A profile in *Outlook* magazine says that Sen held some “important” position or positions in the AISF (Biswas 1998).

Sen’s Nobel autobiography continues at some length on the subject of his politics while at Presidency:

[D]espite the high moral and ethical quality of social commiseration, political dedication and a deep commitment to equity, there was something rather disturbing about standard leftwing politics of that time: in particular, its scepticism of process-oriented political thinking, including democratic procedures that permit pluralism. . . .

Given my political conviction on the constructive role of opposition and my commitment to general tolerance and pluralism, there was a bit of a dilemma to be faced in coordinating those beliefs with the form of left-wing activism that characterized the mainstream of student politics in the-then Calcutta. What was at stake, it seemed to me, in political toleration was not just the liberal political arguments that had so clearly emerged in post-Enlightenment Europe and America, but also the traditional values of tolerance of plurality which had been championed over the centuries in many different cultures—not least in India. . . .

[A]s I look back at the fields of academic work in which I have felt most involved throughout my life (and which were specifically cited by the Royal Swedish Academy of Sciences in making their award), they were already among the concerns that were agitating me most in my undergraduate days in Calcutta. These encompassed welfare economics, economic inequality and poverty, on the one hand (including the most extreme manifestation of poverty in the form of famines), and the scope and possibility of rational, tolerant and democratic social choice, on the other (including voting procedures and the protection of liberty and minority rights). My involvement with the fields of research identified in the Nobel statement had, in fact, developed much before I managed to do any formal work in these areas.

It was not long after Kenneth Arrow’s path-breaking study of social choice, *Social Choice and Individual Values*, was published in New York in 1951, that my brilliant co-student Sukhamoy Chakravarty drew my attention to the book and to Arrow’s stunning “impossibility theorem” (this must have been in the early months of 1952). Sukhamoy too was broadly attracted by the left, but also worried about

political authoritarianism, and we discussed the implications of Arrow's demonstration that no non-dictatorial social choice mechanism may yield consistent social decisions. Did it really give any excuse for authoritarianism (of the left, or of the right)? (Sen 1999a)

In a 1959 essay titled "Why Planning?", Sen advocated "a planned socialist economy" for India.<sup>71</sup> His concern about authoritarianism is evident in the essay, as he cautions socialists not to put forward "spurious" arguments against capitalism and capitalists, as doing so can produce "a widespread feeling that all that is needed to make things satisfactory is a bunch of honest, moral men" and thus can serve to "prepare the ground for a right-wing dictatorship." Sen wrote that the "right" arguments for socialism derived from India's needs for hastened economic growth and increased equity:

Do we wish to have an economy with socialised means of production and an absence of property income? If we want socialism in this sense, then there must be state planning to replace the role the capitalist plays in a free enterprise economy.

Planning thus becomes a necessary condition for socialism, though socialism is not a necessary condition for planning. When we discuss here Why Planning, we shall really be discussing Why Socialism (and, hence, Why Socialist Planning). . . .

It is sometimes maintained that the main factors responsible for the capitalistic economic development in the West 'do not obtain at all in under-developed countries or obtain only partially.' This is not quite correct. Even in India the capitalist class produced a flourishing cotton textile industry, plenty of jute manufacturing and a sizeable steel industry. In Japan there has been a remarkable capitalistic development of modern industries.

To argue for Socialism on grounds that it is the only method of industrialisation is, thus, not quite valid. One need not doubt that, given enough time, the Indian bourgeoisie will be able to produce a modern industrialised economy in India and that will be quite in accordance with what socialists (at least of the Marxian school) should expect.

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71. "Why Planning?" (Sen 1959) appeared in the third-ever issue of *Seminar*, a monthly Indian journal that is still published today (see Puri and Mitra 2009). "Why Planning?" has been reprinted in an anthology of *Seminar* articles (Thapar, ed., 1979) and at least twice in *Seminar* itself (issues 421 and 589); the most recent reprint in *Seminar* was accompanied by a new commentary from Montek Singh Ahluwalia (2008), who leads the Indian government's Planning Commission.

The crucial phrase, however, is 'given enough time.' Even if Indian industrial growth takes place at the same rate as that of Great Britain, it will take India more than a hundred years before it can call itself an industrialised economy in any significant sense. Are we content to go at this pace? This economic history of the modern world shows that in the planned socialist economies, growth is much faster than in the capitalistic countries, and this is what we should expect also from a comparison of the nature of a capitalistic economy and that of a socialistic one.

First, in a capitalistic economy, the results of the economic system are by-products of profit maximisation. The allocation of investment, the determination of prices, the choice of imports, all fit, by and large, into this basic pattern. Economic growth may (and, in fact, does) result in a capitalistic economy, but that too is a by-product.

Now whether the rate of growth will be high or not will depend upon the extent to which entrepreneurial interests coincide with the requirements of economic growth. Every time an entrepreneur chooses a more profitable machine, he may favourably affect economic growth; but every time he uses scarce economic resources to produce luxury goods, he affects economic growth adversely. In a socialistic economy, however, economic growth will not be a by-product but the object of the exercise and the whole economic machine can be, if necessary, geared to this.

Secondly, even if the capitalists ignore profits and try to maximise the rate of growth, they will find it difficult to achieve as much as a coordinating national planning organisation will. Each entrepreneur lacks some knowledge of what the others are doing. Economic decisions are interrelated, and, for maximum economic efficiency, decisions in one field must be linked with those in others. An organised national planning authority, thus, has certain direct advantages over a collection of decision-taking entrepreneurs from the point of view of this objective. ...

In view of all this it is not at all surprising that planned socialistic countries in the world have, on the whole, much faster rates of growth than capitalistic economies. Therefore, if economic growth and rapid industrialisation are our objectives, the choice is not difficult to make.

When Britain was industrialising herself, socialism was not a practical alternative, for the material conditions necessary for socialism (e.g., large-scale techniques of production) were absent. ...

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The situation is completely different today thanks to development of the material basis for socialistic production in the capitalistic countries (and also, more recently in the USSR). Thus a direct evolution towards a socialistic economy is, on the one hand, desirable in terms of the objective of rapid economic growth.

This, it seems to me, is the crucial point. We may of course add to this the much-discussed advantages of socialism in the shape of a better income-distribution, a more fair allocation of economic sacrifice, and so on. ...

The issue before us is clear, the crossroads being not too far away. The 'middle path' seems to have run out. We have to make up our minds as to whether we really want a planned socialist economy. In the light of the above discussion, it can be said that given the economic values assumed here the case for a socialist economy is very strong. (Sen 1959)

I have been unable to find any comparably explicit advocacy of socialism by Sen after 1959,<sup>72</sup> but for at least two decades he continued to treat socialism as a plausible alternative. At the outset of *Poverty and Famines* (1982), for example, Sen offered the ordinary contrast between a "socialist economy" and a "market economy":

A socialist economy may not permit private ownership of 'means of production'.... A socialist economy may restrict the employment of one person by another for production purposes, i.e. constrain the possibility of private trading of labour power for productive use. (Sen 1982, 3)

To be sure, Sen remained politically aligned with the left. Just one indication was his signing of a 1981 petition opposing the macroeconomic policy of the Thatcher government (Wood 2006; Booth 2006, 389). In later years, however, Sen would consider socialism to be a bygone illusion. For example, in a lecture from 1990, Sen is accepting of private markets while voicing readiness to tinker with their functioning:

The limitations of the market mechanism in distributing health care and education have...been discussed in economic theory for a long

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72. "Why Planning?" (Sen 1959) itself does not appear in Sen's curriculum vitae of January 2013 ([link](#)), nor in the "Bibliography of Amartya K. Sen's Publications, 1957–1998" published by the *Scandinavian Journal of Economics* in 1999.

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time (e.g., by Paul Samuelson and Kenneth Arrow). But it is easy to lose sight of these problems in the current euphoria over the market mechanism. The market can indeed be a great ally of individual freedom in many fields, but the freedom to live long without succumbing to preventable morbidity and mortality calls for a broader class of social instruments. (Sen 1990)

In Sen's 1999 book *Development as Freedom*, the word *socialist* hardly appears, and then to be dismissed:<sup>73</sup>

As it happens, many of the restrictions that bedevil the functioning of economies in developing countries today—or even allegedly socialist countries of yesterday—are also, broadly, of this “precapitalist” type. (Sen 1999b, 121)

Socialism had become unthinkable:

The freedom to participate in economic interchange has a basic role in social living. ... It is hard to think that any process of substantial development can do without very extensive use of markets, but that does not preclude the role of social support, public regulation, or statecraft when they can enrich—rather than impoverish—human lives. (Sen 1999b, 7)

After the 2008 financial crisis, Sen suggests careful examination of existing institutions:

The present economic crises do not, I would argue, call for a “new capitalism,” but they do demand a new understanding of older ideas, such as those of [Adam] Smith and, nearer our time, of [Arthur Cecil] Pigou, many of which have been sadly neglected. What is also needed is a clearheaded perception of how different institutions actually work, and of how a variety of organizations—from the market to the institutions of the state—can go beyond short-term solutions and contribute to producing a more decent economic world. (Sen 2009)

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73. The words *socialism* and *communist* do appear multiple times in a discussion on page 114 of *Development as Freedom*, where Sen (1999b) criticizes the very strong restrictions on labor markets in communist countries: “In this sense, Friedrich Hayek’s chastising description of the communist economies as ‘the road to serfdom’ was indeed a fitting, if severe, rhetoric.”

Sen's later work frequently deploys a rhetoric of "freedom" (see, e.g., Sen 1990). In *Development as Freedom*, Sen effectively posits the augmenting of "freedom" as a chief ethical objective: "Development can be seen...as a process of expanding the real freedoms that people enjoy. ... If freedom is what development advances, then there is a major argument for concentrating on that overarching objective" (Sen 1999b, 3). Sen then lists some "major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states" (ibid.). Sen's "freedom" (1999b, 3-4) thus differs from liberty as understood by most classical liberals, libertarians, and modern conservatives.

Philip Pettit describes Sen's move toward "freedom":

[Sen's] personal trajectory has led from recognizing ever more complexities in the notion of control and choice, and in the received, option-centered notion of freedom, to the development of an approach that starts from the idea of functioning in one's society and looks for a state that would provide for the equal functioning capability of every citizen. (Pettit 2010, 112-113)

Pettit's description, I think, comports with the following comment by Sen and his collaborator James Foster, writing in 1997, on a limitation in the analysis Sen had put forward in 1973's *On Economic Inequality*:

A major problem that received only indirect attention [in the 1973 version of *On Economic Inequality*] concerns the implications of the variability of needs between different people. This subject made recurrent appearances in *OEI-1973* (see, for example, pp. 16-23, 77-91) but did not get translated into a decisive move away from judging inequality only in the space of *incomes* or *utilities*. Further, the characterization of needs may require us to go beyond the *utility-oriented* framework to which the 1973 book was more or less entirely confined. In particular, the 'space' in which inequality is to be assessed becomes specifically important to consider. (Foster and Sen 1997, 124, emphases in original)

Sen narrates the development of his thinking:

[By the mid-1980s] I also got more and more involved in trying to understand the nature of individual advantage in terms of the substantive freedoms that different persons respectively enjoy, in the form of the capability to achieve valuable things. If my work in social

choice theory was initially motivated by a desire to overcome Arrow's pessimistic picture by going beyond his limited informational base, my work on social justice based on individual freedoms and capabilities was similarly motivated by an aspiration to learn from, but go beyond, John Rawls's elegant theory of justice, through a broader use of available information. ...

[After moving to Harvard in the late 1980s:] The social choice problems that had bothered me earlier on were by now more analyzed and understood, and I did have, I thought, some understanding of the demands of fairness, liberty and equality. To get firmer understanding of all this, it was necessary to pursue further the search for an adequate characterization of individual advantage. ... The approach explored sees individual advantage not merely as opulence or utility, but primarily in terms of the lives people manage to live and the freedom they have to choose the kind of life they have reason to value. The basic idea here is to pay attention to the actual 'capabilities' that people end up having. The capabilities depend both on our physical and mental characteristics as well as on social opportunities and influences (and can thus serve as the basis not only of assessment of personal advantage but also of efficiency and equity of social policies). (Sen 1999a)

In a review of Sen's *Inequality Reexamined* (Sen 1992b), Robert Sugden elaborates on the view to which Sen had moved:

Sen's objection is that equal command over resources does not necessarily imply equal opportunities in the domain of functionings—the domain that really matters. Equal command over resources can coexist with unequal real opportunities because individuals differ in their ability to convert resources into functionings. For example, a person with serious kidney disease needs more resources than a healthy person in order to achieve the basic functioning of survival. Someone who is confined to a wheelchair needs more resources than someone who is able-bodied in order to take part in the life of the community. In Adam Smith's time, women in England needed more resources than women in Scotland in order to appear in public without shame. And so on. (Sugden 1993, p. 1956)

Sugden also writes:

Sen hints at the possibility that, even when we take account of functionings that go beyond basic survival, levels of well-being might be lower in Harlem than in Bangladesh. Although people in Harlem have much greater command over resources, the costs of such social functionings as ‘appearing in public without shame’ and ‘taking part in the life of the community’ are much greater there too ([Sen 1992b,] pp. 114-16). This kind of analysis is an important challenge to the common view that the ‘wealth-creating’ effects of competitive markets offer a long-term solution to the problem of poverty. (Sugden 1993, p. 1954)

Relative to an income- or wealth-focused approach, then, the capabilities approach to measuring inequality could sometimes be used to justify greater redistributionist interventions, particularly if we expect that policy operates at the national rather than international level.

But, in at least some contemporary policy debates, Sen’s allowance for greater complexity in gauging inequality has led him to advocate less radical interventions. For instance, Sen (2002) ascribes importance to the broad goal of “health equity,” but his section addressing “substantive claims about the content of health equity” (Sen 2002, 663f.) comprises a critique of policy proposals by Alan Williams (1998) and Anthony Culyer and Adam Wagstaff (1993). The substance of Sen’s criticism is that each of these proposals advances an inappropriate “unifocal criterion” (Sen 2002, 665) for health equity, and in each instance Sen rejects an intervention<sup>74</sup> implied by the unifocal criterion. Sen writes:

Williams point [*sic*] out, using this line of reasoning, “We males are not getting a fair innings!” ([Williams 1998,] p. 327). The difficult issues arise after this has been acknowledged. What should we then do? If, as the fair innings approach presumes, this understanding should guide the allocation of health care, then there has to be inequality in health care, in favor of men, to redress the balance. Do we really want such inequality in care? Is there nothing in the perspective of process equality to resist that conclusion, which would militate against providing care on the basis of the gender of the person for an identical ailment suffered by a woman and a man? (Sen 2002, 664)

Culyer and Wagstaff [conclude] in their justly celebrated paper on ‘equity and equality in health and health care’ that ‘equity in health

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74. The reader may object that Sen’s comments can be construed not as a rejection of an intervention, but rather as merely a prescription for the allocation of state resources in health care. I note, however, that Sen is not in favor of an entirely public health care system (“Private health care can have a role to play on the foundations laid by public healthcare,” quoted by a staff reporter for *The Hindu* (2013); see also Sen 2009).

care should ... entail distributing care in such a way as to get as close as is feasible to an equal distribution of health'. But should we really? A gender-check, followed by giving preference to male patients, and other such explicit discriminations 'to get as close as is to an equal distribution of health' cannot but lack some quality that we would tend to associate with the process of health equity. (Sen 2002, 664-665)

Sen has recently cited his college membership in the AISF as evidence of his lifelong sympathy with "Left parties" (Dutta 2013). But today's "left" is of course not the same as the left of even thirty years ago. The sociopolitical shift over Sen's lifetime has been so dramatic that he has found it necessary to scold contemporary left-wing parties in India for paying insufficient attention to the interests of the poor, as evidenced by a newspaper report on a speech given by Sen in Kolkata during 2013:

In response to a question from the moderator of the session, actor Sharmila Tagore, on who represents the interests of the common man, Professor Sen said there seemed to have been a "redefinition of ordinary people."

"Ordinary people are [now] the relatively poor of the privileged in India," he said, adding that issues such as the withdrawal of the subsidy on LPG [liquefied petroleum gas] did not affect many people in India, "because most people do not have an instrument into which a gas cylinder can be fit."

Citing another example, he pointed out that when newspaper headlines "hollered" last year during a major power black-out in north India, many missed out on the fact that for a third of the population, "it was not a black out on that particular night" but an everyday reality.

"I feel particularly upset when I see the Left parties going for [issues such as] cooking gas and electricity prices...rather than the broader picture," he said. (Dutta 2013)

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## Lloyd S. Shapley

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Lloyd Shapley (1923–) was born in Cambridge, Massachusetts, a son of the distinguished astronomer Harlow Shapley. As a student at Harvard University he was drafted in 1943 to serve in World War II. As a sergeant in the Army Air Corps in China he earned a Bronze Star for helping crack the Japanese weather code (Ferguson 1991, ix). After the war, he went to Harvard University where he earned his bachelor's degree, and then to Princeton University for his Ph.D. in mathematics. Shapley has taught at Princeton University and the University of California at Los Angeles. He also worked at the RAND Corporation, where he met his wife, Marion Ludolph, a fellow mathematician and co-worker (*ibid.*).

In 2012, Shapley shared the Nobel Prize in Economics with Alvin Roth “for the theory of stable allocations and the practice of market design.” In presenting the Nobel Prize, Torsten Persson (2012) told Shapley: “Your contributions to cooperative game theory are legendary among game theorists and economists. You and David Gale are the founders of matching theory, and the deferred-acceptance algorithm you discovered is the cornerstone on which theory and applications rest.”

Shapley and David Gale wrote a seminal paper on matching theory, in which they laid out a theory of matches in marriages and college admissions (Gale and Shapley 1962). They created an algorithm for optimal, stable matches based on preferences of both sides of potential matches. Alex Tabarrok describes their findings:

*[jump to navigation table](#)*

Now what is good about this algorithm? First, Gale and Shapley proved that the algorithm converges to a solution for a very wide range of preferences. Second, the algorithm is stable in the sense that there is no man and no woman who would rather be matched to each other than to their current match. (Tabarrok 2012)

Shapley is also well-known for the “Shapley value,” which defines the social benefits of cooperation over competition. Another innovation, the Shapley-Subik power index, can be used to reveal which decisionmakers in a political body are the most important, often with surprising results (Matthews 2012).

Shapley does not appear to have been open about his political views. Disclosure records show that Shapley’s few political donations went to Democratic Party candidates and organizations (Kiely 2012).

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## William F. Sharpe

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Massachusetts-born William Sharpe (1934–) spent most of his formative years in California and has remained a West Coaster ever since. He earned his bachelor’s and master’s from UCLA, and after serving in the U.S. Army, returned

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to UCLA for his Ph.D. During part of that time, he also worked at the RAND Corporation (Sharpe 1991).

In remarking on working at RAND, which was “[f]unded almost entirely by the Air Force,” Sharpe identifies his own political outlook:

Now, of course, the idea of working in a classified facility for the military establishment would prove an anathema for liberals (in the American political sense of the term), such as myself and most of the others at Rand. But those were simpler times. We truly believed that by improving the efficiency of the defense establishment we could help prevent war. There seemed to be no ambiguity and no moral dilemma. (Sharpe 2009, 179)

Professor Sharpe’s response to our questionnaire, appended to this profile, confirms that his ideological outlook has not changed significantly during his adult life (Sharpe 2013).

While at UCLA and RAND, Sharpe began working with Harry Markowitz, who would be an important influence on Sharpe. Sharpe worked on his dissertation, on transfer pricing, under Jack Hirshleifer, Armen Alchian, and Markowitz (Sharpe 2004). Sharpe, Markowitz, and Merton Miller were co-winners of the 1990 Nobel Prize in Economics “for their pioneering work in the theory of financial economics.”

Sharpe is most known for his development of the Capital Asset Pricing Model. When asked to summarize his work, he responded:

I wanted to answer why people act in certain ways when they invest and how risk and return are related. The bottom line: Yes, Virginia, some investments do have higher expected returns than others. Which ones? Well, by and large they’re the ones that will do the worst in bad times. (Sharpe 2007)

After earning his Ph.D., Sharpe taught at the University of Washington, then at the University of California at Irvine, before settling in at Stanford in 1971. In 1986, Sharpe founded a financial consulting firm.

Because of his work on portfolio theory, Sharpe has commented on government pension plans. Regarding CalPERS, the “substantially underfunded” state employee pension plan in California, he wrote: “[T]he CalPERS actuaries [assumed] that their portfolio of bonds, stocks and exotica will return exactly 7.5% every single year. Moreover, they value assets at an average of past values. Magical thinking. Bad economics” (Sharpe 2012). Sharpe concluded, “So, I implore all those who help people save and invest for retirement and then use their savings

sensibly in retirement[:] Please avoid magical thinking and bad economics. Employees and retirees deserve better” (Sharpe 2012).

He has concerns about the general tendency to replace defined-benefit with defined-contribution plans, saying they create “an unprecedented need for ordinary human beings to make informed decisions about investing their retirement savings—a task for which most are currently ill-equipped” (Sharpe 1997).

Sharpe has a solution to the Social Security crunch: Raise taxes, cut benefits, or do some combination of both. “Social Security is not broken,” he says (Siegel 2008).

Sharpe signed a petition opposing the George W. Bush tax cuts and a petition endorsing John Kerry for President (Economic Policy Institute 2003; Hedengren et al. 2010). In 2011, Sharpe offered support to the “Purple Health Plan,” authored by Laurence J. Kotlikoff, a professor of economics at Boston University. The plan would replace Medicare and Medicaid, providing all Americans with vouchers for purchase of health insurance and ending tax breaks for employer-provided insurance (Kotlikoff 2011).

We are very grateful to Professor Sharpe for his generous response to our questionnaire; the response follows:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My family was relatively apolitical. The older members on my mother’s side were rock-ribbed New England Republicans, while those on my father’s side were Republicans but relatively moderate ones by the standards of the day. I grew up in WWII, during which my father served in the army and there was relatively little division in general. I would say that both of my parents drifted toward the support of first Roosevelt, then Truman.

When I was 18 I was relatively sympathetic with government involvement in large parts of life, and satisfied as a consumer of public education through high school, then at the University of California (Berkeley and Los Angeles).

*2. How about at age 25 or so? Had they changed at all by then?*

Not really. I finished my Master’s at UCLA, then served in the Army. After that I worked at the RAND Corporation. I had become a Democrat (as had my father). I continued my studies, earning a PhD in Economics while working full time at RAND as well. I managed to repeat the mantra that Economics addressed questions of efficiency, not necessarily those of equity. I learned about the efficiency associ-

ated with a market economy but still felt that government could play an important role concerning public goods, externalities and limited amounts of redistribution.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

No major changes. I had moved to the study of Financial Economics and the efficacy of markets for allocating risk and resources over time. But I knew that often people chose to make bets without the desire to hedge against existing risks and that the financial industry often charged unnecessarily high fees for its services.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

Perhaps my skepticism has deepened. Like most of my colleagues I have an increased appreciation for the foibles of human decision-makers and the willingness of those in the financial industry to exploit some of them. But I still have a great respect for the ability of markets to allocate resources well if participants are reasonably well informed.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?*

I like to think that my views are more nuanced now, as they should be. We have all learned much about the behavior of individuals, the effects of certain market forces, the foolishness of some governmental policies, and so on. But I wouldn't say that I have moved “left” or “right.” I sometimes say that I am a knee-jerk liberal with an appreciation for the efficiencies of a market economy. Relative to the past, I hope that I am better informed and less inclined to adhere to any sort of party line.

*6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

In graduate school at UCLA I was greatly influenced by Armen Alchian, who taught me much about economics. I did not adopt some of his more deeply held views about free markets, but have always asked myself why I might disagree with some of his conclusions about

public policy, to be sure that at least I have reasoned carefully from my own premises.

7. *We welcome citations to your writings that express your political views. We also welcome whatever tips you would give to someone researching your political views and their course over time.*

I have tried to keep my values separate from my analyses, or at least to make them explicit where this would be important. I prefer not to express my political views in public since I find it too easy to see both sides of many issues. (Sharpe 2013)

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# Herbert A. Simon

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Herbert Simon (1916–2001) was born in Milwaukee. His father, an inventor, settled in the United States in 1903. Simon’s uncle had studied economics at the University of Wisconsin, and it was through his uncle’s old books that Simon “discovered the social sciences” (Simon 1992/1979).

Simon has described himself as a “Depression-bred” economist (Simon 1985, 19). At a young age, Simon read deeply and critically into economics writings that he claims contributed greatly to his education. These writings include Henry George’s *Progress and Poverty* and Richard T. Ely’s *Outlines of Economics* (Simon 1996, 14). For this generation of economists, Simon said, “The elimination of poverty has been...a lodestar, and compassion for the poor and unlucky an admirable trait of character” (Simon 1985, 19). Simon seems to have held this view consistently.

Describing himself as a civil libertarian in grammar school and generally a nonconformist thereafter, Simon “arrived on campus a Socialist” (Simon 1996, 50). In 1937 he and future wife Dorothea Pye helped to form the Progressive Club, a group that focused its attention on supporting “antimachine” candidates for local government in a corrupt political landscape in Chicago. Progressive Club members combined with other activist groups to form Americans for Democratic Action; thus Simon describes his wife and himself as “prenatal members” of ADA (Simon 1996, 74, 119-120). His social-democratic disposition did not waver. In 1996 he said: “I was (and am) a New Deal Democrat, probably imprinted by Franklin Delano Roosevelt’s Inaugural address” (ibid., 119).

Simon entered the University of Chicago in 1936 as a student in political science. At the helm of the department was Charles E. Merriam, who along with his colleagues “articulated a liberal management political philosophy in which they sought to harmonize democracy and expert authority” (Crowther-Heyck 2005, 43). Merriam and his colleagues believed that there was greater liberty under rational democratic governments, and that modern societies needed to be led and economies regulated in order for progress to be achieved (ibid., 44). Simon described Merriam as “commander-in-chief and master strategist of the revolutionary forces. I was just a private in his army.... ... Having participated in these events [at Chicago] for more than a decade... did much to form my views about how scientific disciplines develop, to teach me the strategies of subversion I later employed in attacking orthodoxy in economics and psychology, and to focus my sights on the phenomena of human thinking and problem solving as the essential core of both organization theory and economics” (Simon 1996, 55).

Simon received his Ph.D. in political science and stayed on at Chicago to teach. He became involved with the Cowles Commission, where he received a “second education” in economics (Simon 1992/1979). Mie Augier and James March, citing Simon’s papers, write: “Simon believed that his association with the Cowles Commission brought him into the mainstream of economics and brought his papers to the attention of that mainstream” (Augier and March 2004, 12).

Simon said that our society is obligated “to leave to future generations as wide and interesting a range of options as those our generation inherited from our forebears. To do that, we must accept collective responsibility for securing continuing energy sources, for preserving the environment, for stabilizing world population, and for somehow removing or dulling the threat of the Bomb” (Simon 1985, 18).

In 1978 Simon received the Nobel Prize in economic science for “his pioneering research into the decision-making process within economic organizations.” The announcement of the award also acknowledged his “contributions in, among other fields, science theory, applied mathematical statistics, operations analysis, economics, and business administration” (Royal Swedish Academy of Sciences 1978).

Simon rejected what he saw as a common tendency to view society as a zero-sum game. Simon argued: “There must be better games; and if I were to select a research problem without regard to scientific feasibility or interest, but only in terms of social welfare criteria, it would be the problem of finding conditions under which human beings will design and play games that all can win” (Simon 1985, 19).

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## Christopher A. Sims

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Christopher Sims (1942–) was born in Washington D.C., and, as his father worked for the military, the family moved often before settling in Connecticut for Sims’s teenage years. He grew up in a lively intellectual climate, with family members frequently initiating political and economic discussions. Sims’s mother ran the Connecticut League of Women Voters and was Democratic mayor of Greenwich, Connecticut (Sims 2011b). At Harvard University, Sims majored in math and took courses in statistics, economics and econometrics. He then studied at the University of California at Berkeley for a year before returning to Harvard to earn his Ph.D. in economics (Sims 2004, 274-276).

After a short time teaching at Harvard, Sims joined the University of Minnesota faculty. After Minnesota, Sims went to Yale University, and then Princeton University. He has also been visiting scholar for a number of U.S. Federal Reserve banks. While in graduate school and again on the Minnesota faculty, Sims got to know Thomas Sargent, the co-winner with Sims of the 2011 Nobel Prize in Economics “for their empirical research on cause and effect in the macroeconomy.”

Sims eschews ideological labels and is very reserved in expressing policy judgments, especially outside the area of macroeconomic policy. “There isn’t much political coloration in my economic writing,” Sims said. “It’s not surprising that few people know my political views. They really aren’t very important” (quoted in Sommer 2011b). When some commentators pegged Sims as opposing government intervention in the economy, Sims stated that he instead approved of some interventions (Sommer 2011a). Jeff Sommer (2011b) reports in the *New York Times* that Sims is a “lifetime” Democrat and supports “many recent policies of the Obama administration and the Federal Reserve.”

When described as a “non-Keynesian,” Sims objected, saying that he is, in fact, not “non-Keynesian” at all (Sommer 2011a). Sims (2011b) writes that his work “involved criticizing the statistical underpinnings of the Keynesian econometric models, but I viewed them as flawed but important, not worthless.”

Describing his approach to economic analysis, Sims said, “I usually start with a statistical model of the data and then add economic assumptions sparingly until I can begin to get answers” (Sims 2011a). Tyler Cowen (2011) lists “vector autoregression as a macroeconomic method, impulse response functions, and deep examinations of money-income causality” among Sims’s contributions. Cowen comments:

Think of Sims as an economist who found the traditional Keynesian methods “just not good enough” and who worked hard to improve them. He brought a lot more rigor into empirical macro and he helped define a school of thought at the University of Minnesota. His influence will endure. Some of his results raised the status of the “real shocks” approach to business cycles, although I think of Sims’s work as more defined by a method than by any set of conclusions. (Cowen 2011)

Monetary policy, Sims holds, “is not as important as many people have thought in *generating* business cycle fluctuations” (Sims 2007, emphasis in original). If, however, monetary policy “were erratic and unpredictable or perverse, [it] could have very significant bad effects on the economy.” Fiscal policy, he says, can also cause inflation. “An inflation targeting regime only makes sense when the monetary authority really has control over the price level. And if there’s a bad fiscal environment, the monetary authority may not have such control” (ibid.).

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# Vernon L. Smith

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Vernon Smith (1927–) was born and raised in Kansas during the Great Depression. His family struggled to make ends meet on their farm, and eventually the bank foreclosed. Smith recalls that the event confirmed his “mother’s political commitment to socialism” (Smith 2003a). He stated that his mother ran for state treasurer on the Socialist Party ticket in Kansas more times than he could count (Smith 2002, 39). Smith adopted his mother’s socialist views. He recounts that in high school he was involved in socialist activism, and in college he voted for socialist candidate Norman Thomas. But, later, his economics training and research moved him far in the direction of libertarianism, as he makes clear in his kind questionnaire response, reproduced at the end of this profile (Smith 2013).

In a 2003 interview, Smith discussed this transition:

I grew up in a socialist family. My mother was a socialist and very proud that she had cast her first vote for president for Eugene Victor Debs. I held many of those views also. But gradually, as I developed a deeper understanding of economics, I began to rethink things. And the final blow came when I started doing experiments and my subjects taught me that markets work. That transition took place over a number of years and became stronger and stronger. Certainly by the time I had been at Purdue for five of six years—this would be in the early 1960s—I had changed my mind. (Smith 2003b, 32)

Although Smith had changed his perception of the nature of collectivist politics, he remained warm to his experiences as a socialist. He explained:

I doubt that I have voted for anyone since who approached Thomas’s incredible integrity and compassion for humanity. Remarkably, I still have a very warm memory of that experience, although intellectually, of course, command-and-control systems do not and cannot work, and demonstrably cannot manage the economy. They perpetuate poverty, destroy freedom, subordinate the individual to a mindless bureaucracy of doublespeak, and in their worst incarnations, brutalize their most imaginative and independent citizens, all the time claiming otherwise. An understanding of why I could feel warmly toward that first voting experience would go a long way to explaining why in the name of freedom, fairness, and justice we realize less and less of all

three; why, even when liberalization efforts break through the political process—for example, the worldwide privatization and decentralization movement of the 1980s—the pendulum also swings back and gradually undermines wealth-creating as well as poverty-reducing reforms. (Smith 2009, 348)

In 2002, along with Daniel Kahneman, Smith won the Nobel Prize in economics for using laboratory experiments in empirical economic analysis and in the study of alternative market mechanisms. In a *New Palgrave* entry, Catherine Eckel (2008) writes that Smith “has made important contributions to market and institutional design, public goods, bargaining, experimental methodology and the philosophy of science.”

While in high school, the schoolwork bored him, so his performance was mediocre. He worked at a drug store, and, after graduation from high school, at Boeing until he decided to go to college. Unable to attend the California Institute of Technology because of his poor grades, he attended a local Quaker college, Friends University. After a year of building his knowledge and track record, Smith took the Caltech entrance exam and was accepted. He majored in electrical engineering, and during his senior year took an economics course (Smith 2003a).

Intrigued by the similarity of economics to physics and engineering, Smith went to Kansas University for his master’s degree in economics. He reflected on his switch to economics:

When I was a senior at CalTech, I took an economics course and I got interested in the topic. I went to the library, and among other things, I ran across a copy of Paul Samuelson’s *Foundations of Economic Analysis*. It looked to me a lot like physics, which I was already doing. I also subscribed to the *Quarterly Journal of Economics*, and in one of the first issues there was an article by Hollis Chenery on engineering production functions—so it was engineering too! ... [T]he discipline was mathematical and had an important applied empirical dimension, which appealed to me. (Smith 2003b, 32)

Smith went to Harvard University for his Ph.D. in economics. After earning his Ph.D., Smith taught at Purdue University, Stanford University, and others, before landing at the University of Arizona, where he stayed for 26 years. He then joined the faculty of George Mason University, and in 2008 moved to Chapman University.

While at Harvard, Smith had taken E. H. Chamberlin’s class, in which Chamberlin demonstrated the lack of equilibrium tendency by having his students

engage in a trading game. Smith thought the game could do with some improvements, and so began Smith's move into experiments (Smith 2003a). Teaching at Purdue, Smith adapted Chamberlin's demonstration. Smith recalls the results of his version of the game:

To my amazement the experimental market converged "quickly" to near the predicted equilibrium price and exchange volume, although there were "only" 22 buyers and sellers, none of whom had any information on supply and demand except their own private cost or value. (Smith 2003a)

Smith recalls the impact his work had on his viewpoint: "Experimental economics destroyed whatever was left in me of the notion that somehow you could do better than to find institutions that organized this decentralized information" (Smith and Gillespie 2011).

Not all of Smith's views changed, however: "I was...a peacenik, who had decided that support for that war was justified; but after Hiroshima and Nagasaki I reverted to my peacenik days. That sentiment is still very strong with me today" (Smith 2013).

Smith often analyzes issues through the lens of property rights and institutions (Smith and Gillespie 2011). In a 1999 paper on federal lands, Smith, Terry L. Anderson, and Emily Simmons wrote:

[T]he failure of socialism is as evident in the realm of resource economics as it is in other areas of the economy.... Both environmental quality and economic efficiency would be enhanced by private rather than public ownership. Land would be auctioned not for dollars but for public land share certificates (analogous to no par value stock certificates) distributed equally to all Americans. ... Once divested, tract deed rights would be freely transferable. (Smith et al. 1999, 1)

Regarding the 2008 financial crisis, Smith suggests that some of the problems arose from ill-defined property rights (Smith and Gillespie 2011; Smith 2010). He says, "I don't think there is anything you can do to prevent bubbles" (Smith 2010), but he described certain mortgage-repayment requirements imposed by the state government in Texas and endorsed them, saying:

[I]t's clear that this Texas law made a substantial difference there and it seems to me those are very reasonable kind of property type regulations in which you say that people don't have a right to buy

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homes without putting up some, a reasonable cash down payment and that the loan be amortized. And so that's not a heavy handed regulation. It's a very reasonable benign type of regulation: give people rights to take action that are consistent with sustainability and stability. (Smith 2010)

Smith has been very active in signing petitions, and, on policy issues, very consistently for reforms that are "liberty augmenting," according to David Hedengren and collaborators (2010). Smith signed a petition for the "Purple Health Plan" (Kotlikoff 2011) and a petition supporting John McCain for President in 2008 (Hedengren et al. 2010). In the 2012 Presidential election, Smith voted for the Libertarian Party nominee (Smith 2013).

In a 2003 interview, Smith remarked on foreign aid: "The history of foreign aid has been disastrous in the sense that it's country-to-country transfers, and in a lot of underdeveloped countries with corrupt and dictatorial governments, it just increases their power. The way you get developed is for investors to invest in those countries and see how their money is going to be used. Public policy, I think, should be directed at removing artificial barriers to that" (Smith 2003c, 8).

Concerning the economics of health care, Smith and Douglas Holtz-Eakin write:

The presence of externalities and other market imperfections does not justify a departure from the normal rules of the constitutional road. Health care is typically consumed locally, and health-insurance markets themselves primarily operate within the states. The administration's attempt to fashion a singular, universal solution is not necessary to deal with the variegated issues arising in these markets. States have taken the lead in past reform efforts. They should be an integral part of improving the functioning of health-care and health-insurance markets. (Smith and Holtz-Eakin 2012)

They continue:

The individual mandate and Medicaid expansions appear to many to be unconstitutional. They are certainly bad economic policy. When they go, the entire law must fall. The administration built an intricate, balanced policy on a flawed economic foundation. It is up to the Supreme Court to pull it down. (Smith and Holtz-Eakin 2012)

Regarding political labels, Smith has said:

I think economists' work is still colored too much by their political preferences. You know, Hayek once wrote a paper called "Why I Am Not a Conservative." I sometimes would like to write a paper about why I'm not a conservative or a liberal or a libertarian, so that I could state what I think the problems are with all of them. (Smith 2003b, 35)

Professor Smith's generous response to our questionnaire follows:

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My mother was a socialist and her Wichita friends were Marxian socialists; she had only an eighth grade education but that did not keep her from running for Kansas State treasurer on the Socialist ticket. In 1936 when I was nine years old I helped pass out program leaflets for Norman Thomas, candidate for President against Roosevelt. He used to complain that Roosevelt got elected by stealing his program. At 18 (1945) I would have been a member of the YPSL (Young People's Socialist league). Also a member of CORE—Congress on Racial Equality. We challenged the local theaters that required blacks (Negroes in those days—"blacks" was derogatory) to sit in the balcony. Our biggest problem was to get blacks to join us. CORE did things in defiance of the NAACP. I was also a peacenik, who had decided that support for that war was justified; but after Hiroshima and Nagasaki I reverted to my peacenik days. That sentiment is still very strong with me today.

*2. How about at age 25 or so? Had they changed at all by then?*

At 25 I am a Harvard graduate student, and less political. (In 1948 (age 21) I voted for Norman Thomas.) I would start gradually to change because of my economic training (notwithstanding Alvin Hansen, Samuelson). I would be more influenced by Leontief and Haberler; largely because of my own choices than external sources.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

By 35 (1962) I have been doing experiments at Purdue for six years, and the behavior of my subjects was disabusing me of any latent beliefs that decentralized market processes were not efficacious. That utterly changed everything, but led also to the discovery that there were markets that performed badly—asset markets, later well represented by housing-mortgage markets. About 75% of private product is

consumer non-durables, and these markets are essentially never a stability problem; instability comes from the other 25%, especially housing and that is a matter of too much of Other People's Money.

4. *And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

I find the Democrats of today pretty scary and the Republicans essentially paralyzed. I usually vote for the lesser of the two evils nationally, or, when they are indistinguishable, not at all. Last time around I voted for Gary Johnson whom I met here at Chapman.

5. *Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking "move" in a particular "direction" (using the notion of ideological space)?*

I have moved more and more out of that space.

6. *If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

Some of all of the above, but fundamentally what I learned from the behavior of subjects in experiments.

7. *We welcome citations to your writings that express your political views. We also welcome whatever tips you would give to someone researching your political views and their course over time.*

You can cite *Discovery; A Memoir*. Bloomington, Ind.: Author-house, 2008. (Smith 2013)

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## Robert M. Solow

by Daniel B. Klein and Ryan Daza

Robert Solow (1924–) was born and raised in Brooklyn. Solow, who grew up in the 1930s, has written that “all my mother and father talked about together was where the next dollar would come from” (Solow 2009a, 115). Solow’s parents were New Deal Democrats (Solow 2013c), as is, it has been said, Solow himself (Samuelson 1989, 95). He considers himself a liberal Democrat today, saying in his response to our questionnaire that his outlook has been quite constant since the age of 25 (Solow 2013c).

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Solow says that a high school teacher's influence taught him to never have "a moment's sympathy for the Soviet Union (nor for Trotskyism—for me the rot set in with Lenin or before)" (Solow 2013c). He reflected on the times:

I can certainly say that everyone in Brooklyn in the 1930s was interested in economics. And not only in economics: intelligent high school students of my day were conscious not only of the Great Depression but also of the the rise of Fascism and Nazism, events that were certainly not independent of the worldwide depression. It was an obvious fact of life to us that our society was malfunctioning politically and economically and that nobody really knew how to explain it or what to do about it. (Solow 2009b, 154)

Solow went to Harvard for his undergraduate studies, but his education was interrupted by World War II when he volunteered for the Army. At the end of the war he returned to Harvard and decided to finish as an economics major (Solow 2009b, 156). Solow then earned his Ph.D. from Harvard and took a faculty position at MIT, where he has remained throughout his career.

In an interview with Arjo Klamer, Solow described his undergraduate years at Harvard:

I began to study sociology, anthropology, and some economics. I had very good teachers in those subjects, such as Talcott Parsons, the sociologist, and Clyde Kluckhohn, with whom I became very close friends. I also had a course with Paul Sweezy, who was a favorite economics teacher of mine...and I think I was a favorite student of his. I was fairly left wing at that time. (Solow 1984, 128)

Klamer comments: "You said you were a left winger as an undergraduate and that you liked Paul Sweezy. You must have changed quite a bit..." Solow responds: "Well...yes and no. I still think of myself as a left of center person. I still don't find it a particularly attractive notion that property rights should take precedence over all other rights" (Klamer 1984, 130). Klamer asks "Why?," and Solow continues:

That is a long evolution. As a student of Paul Sweezy's, I was excited by Marxian economics. As I studied economics I came more and more to the conclusion that there is really no good economics in Marxism; Marxian economics has been a failure as an economic theory. For a longer time I found something useful in the notion of historical materialism, that ideas tend in a large part to reflect interests—vulgar

Marxism, so to speak. There is something to that, though it's far from the complete story.

My first intellectual influence was a high school teacher who had been anarchist. So I never felt the slightest attraction to Stalinism or Soviet communism.

I was once at Oxford and went to a seminar...it was in 1968 so the place was filled with radicals. They asked what I thought of Marxism, and I said that Marxism made pseudo-science of one insight that Proudhon had, namely that property is theft. Locke saw the institution of private property as a great thing because it was a way of protecting private citizens against the encroachments of aristocratic power. There is still a lot of value to that. The danger of socialism is the concentration of political and economic power in the same hands. Nevertheless, I still believe that the institution of private property has to keep proving itself. For that matter, capitalism still has to keep proving that it can be economically efficient without being destructive of reasonable equality.

I am not anti-socialist in any absolutist way but I am not a socialist either, because I do not think that socialism is a practical prospect for a good society. If there were an opportunity for democratic socialism somewhere, I would be willing to see it given a try. I am not pessimistic about the managed capitalism that you find in northern European countries. They have learned to combine activist economic policy with democracy. I don't see that the Dutch or the Norwegians have less liberty, all things considered, than we do. (Solow 1984, 130-131)

Solow's graduate thesis was "an exploratory attempt to model changes in the size distribution of wage income using interacting Markoff processes for employment-unemployment and wage rates" (Solow 1988). He is most well-known for his modeling of economic growth, which is also what earned him the Nobel Prize. Solow was a senior economist on the Council of Economic Advisers to President John F. Kennedy from 1961 to 1963.

Writing in 1974 about the welfare programs promulgated by the Kennedy and Johnson Administrations, and specifically about President Johnson's Great Society initiative, Solow and Eli Ginzberg said: "It seems to us that no one who reads the evidence in the preceding essays can seriously subscribe to either of the extreme, simple, fashionable dogmas: that social legislation is merely a sham, aimed at camouflaging, not solving, problems; or that all major political intervention in social problems is a mistake, bound to fail, and better left to local government,

private charity, or the free market. Contrary to these dogmas, the evidence seems to show that the problems are real, that the political pressure to do something about them is often irresistible, and that many partial, but genuine successes have been achieved” (Ginzberg and Solow 1974, 220). They concluded: “The record of the Great Society is one of success mixed with failures, of experiments that proved themselves at least partly successful and experiments whose returns do not appear to have justified the effort. In other words, it turned out about as any sensible person should have expected” (ibid.).

In 1996, Solow was a critic of welfare reform as drafted and passed. He admitted the reform appears to have worked better than he anticipated at getting people back into the labor market, but pointed out that it was hard to judge because the reform had been “launched in the midst of [an] incredible boom” (Solow 2002, 33). Solow said he opposes time limits on welfare (ibid.).

Asked in a symposium to name the “most significant contributions” to economics during the 1900s, Solow (2001, 296) started his list with John Maynard Keynes’s *General Theory*. Solow says that as an economist Keynes “avoided extremes,” “changed his mind often,” and “was not an ideologue”; by contrast, Solow describes Milton Friedman as “an ideologue, a True Believer” who was “bad for economics and bad for society” (Solow 2013b, 214-215). Solow also has his opinion of Hayek:

[T]here was a Good Hayek and a Bad Hayek. The Good Hayek was a serious scholar who was particularly interested in the role of knowledge in the economy (and in the rest of society). Since knowledge—about technological possibilities, about citizens’ preferences, about the interconnections of these, about still more—is inevitably and thoroughly decentralized, the centralization of decisions is bound to generate errors and then fail to correct them. The consequences for society can be calamitous, as the history of central planning confirms. That is where markets come in. All economists know that a system of competitive markets is a remarkably efficient way to aggregate all that knowledge while preserving decentralization.

But the Good Hayek also knew that unrestricted *laissez-faire* is unworkable. It has serious defects: successful actors reach for monopoly power, and some of them succeed in grasping it; better-informed actors can exploit the relatively ignorant, creating an inefficiency in the process; the resulting distribution of income may be grossly unequal and widely perceived as intolerably unfair; industrial market economies have been vulnerable to excessively long episodes of unemployment and underutilized capacity, not accidentally but

intrinsically; environmental damage is encouraged as a way of reducing private costs—the list is long. ...

The Bad Hayek emerged when he aimed to convert a wider public. Then, as often happens, he tended to overreach, and to suggest more than he had legitimately argued. *The Road to Serfdom* was a popular success but was not a good book. Leaving aside the irrelevant extremes, or even including them, it would be perverse to read the history, as of 1944 or as of now, as suggesting that the standard regulatory interventions in the economy have any inherent tendency to snowball into “serfdom.” The correlations often run the other way. Sixty-five years later, Hayek’s implicit prediction is a failure, rather like Marx’s forecast of the coming “immiserization of the working class.” (Solow 2012a, 40)

In the interview with Klamer, Solow speaks of a change in his thinking on a particular matter in macroeconomics: “I want to get on the record that I think that the belief that I have had before—in a very stable Phillips curve—was very badly damaged by the data of the ’70s and that I had to change my mind. I don’t want to be understood as thinking that there is some larger satisfactory version of the Phillips curve which can absorb the observations of the ’70s” (Solow 1984, 136).

Solow also explained his views on the need for government intervention in the economy, saying markets need assistance when they “malfunction,” and monetary policy is often better carried out than politicized fiscal policy. “Because of this inevitable political process,” Solow said, “it’s hard to get fiscal policy done promptly, in a timely fashion. That’s why I think that for short-run processes we do have to rely on monetary policy” (Solow 2002, 28-29).

On environmental issues, Solow rejects as hypocritical pressure exerted by developed nations to limit the use of fossil fuels in developing countries. He advocates innovating and spreading better technology around the world as the best way to preserve the environment (Solow 2002, 33-34).

Solow is critical of certain varieties of Keynesianism: “To my eye the New Keynesian Economics is a mixed bag. Its aims are right and its techniques are nice. But sometimes the particular facts of life it chooses to emphasize seem too farfetched or insignificant to bear the weight that is placed on them. It comes, maybe, from a kind of yearning for respectability and the well-rounded belief that respectability comes from a staying close to the traditional simplifying assumptions of economics. That is not wholly bad. It is certainly better than wholesale ‘new paradigm’-mongering. But there are times when common sense leads away from the tradition, and then I would choose common sense every time” (Solow 2009b, 165).

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Solow has signed petitions opposing the George W. Bush tax cuts, supporting a raise in the minimum wage, supporting the Federal Recovery (Stimulus) Act, supporting enhanced powers for unions (“Employee Free Choice Act”), and endorsing John Kerry for president in 2004 (Hedengren et al. 2010).

Solow commented on reform possibilities after the recent recession:

There are several kinds of regulatory reform that could place limits on leverage, preserve the essential functions of finance, and diminish the burden on tax-payers. Some of them are more market-oriented, others more state oriented. A well-designed system could make use of several of them, as long as priority is clear. One reason for welcoming the presence of several layers of protection is that laissez-faire won't do, paper regulations are vulnerable to the creation and exploitation of loopholes, and the political process will sometimes lead to neurasthenic regulators. We are probably better off with defense in depth, even with the risk of some bureaucratic interference. (Solow 2010, 30)

Solow contributed an essay on fiscal policy to a 2012 book titled *In the Wake of the Crisis*, writing:

During long and deep recessions...it has become evident that monetary policy may reach its limits without being able to generate enough aggregate demand to close the excess supply gap. So governments have turned more or less instinctively to discretionary fiscal policy, even if the latest refined theory cannot approve. If we are going to do discretionary fiscal policy, we should try to do it right. ...

[A] new round of more economically sophisticated estimates might narrow the range of expected multiplier effects and improve the making of discretionary fiscal policy. (Solow 2012b, 73, 75)

In an 2013 op-ed, Solow writes about the national debt:

In the long run we need a clear plan to reduce the ratio of publicly held debt to national income. But for now the best chance to reinvigorate the economy, spur business investment and encourage consumer spending is through public borrowing and spending. Instead, we're heading into an ill-advised, across-the-board austerity program. (Solow 2013a)

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Regarding growth in developing countries, Solow has agreed “with the open-economy people” that trade will help these economies, but added:

Where I think the open-economy partisans run into problems—and it is a respect in which a lot of market-oriented economics and economists fail—is that they tend to look at overall progress and brush off the fact that a lot of people lose in this process. ... A society in which a small number of people get very rich and a large number of people get very poor is not really progressing.... (Solow 2002, 27-28)

In response to a questionnaire produced by Karen Horn, Solow said that the politician he most admires for his hand in economic policy is John F. Kennedy, and that the most misleading theoretical approach in economics has been real business cycle theory (Horn 2009, 271).

Solow occasionally writes in a way that is rather partisan. For example, in a 1987 roundtable discussion, Solow said: “What does the Reagan Administration care about? I think it cares about the distribution of wealth and power, and its program is and has always been the redistribution of wealth in favour of the wealthy and of power in favour of the powerful. And it is the envelope theorem that makes them politically right” (in Solow et al. 1987, 182). In the same discussion, Solow said that Michal Kalecki believed “the business community would be unhappy with full employment because it would make the working classes pushy and disrespectful. I have usually thought that he was wrong; full employment would make workers content and capitalists rich. Sometimes it seems that modern conservatives are trying to prove Kalecki right” (ibid., 185).

Professor Solow kindly responded to our questionnaire by sending a letter summarizing the history of his ideological outlook. We have for convenience inserted the question text in brackets:

*[1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.]*

1. I was born in 1924 in Brooklyn, NY, so grew up in the 1930s. My parents were wholehearted Franklin Roosevelt Democrats. Like most thinking students in that time and place, I was to the left of my parents. Something interesting happened. A major influence on me was a high school teacher who in her youth had been Emma Goldman’s secretary, and still thought of herself as a philosophical anarchist. One consequence was that I never had a moment’s sympathy for the Soviet Union (nor for Trotskyism—for me the rot set in

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with Lenin or before). So I never had the bad conscience that turned some of my contemporaries into right-wingers when disillusioned.

[2. *How about at age 25 or so? Had they changed at all by then?*]

2. By 25, after 3 years in the Army and more education, I was a liberal Democrat.

[3. *And how about age 35 or 40? Please describe any changes undergone since your early twenties.*]

3. Ditto.

[4. *And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*]

4. Ditto.

[5. *Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?*]

5. No change in general orientation. Of course I have changed my mind on some issues.

[6. *If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*]

6. I think my political views arise mostly from common observation and a dislike of being hoodwinked.

Not very interesting, but that’s the point. (Solow 2013c)

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## A. Michael Spence

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Raised in Canada, Michael Spence (1943–) went to Princeton University for his undergraduate education. He earned his master’s degree from Oxford University and his Ph.D. from Harvard. At Harvard, he studied under Kenneth Arrow and Thomas Schelling, among others (Spence 2002). Politically, Spence describes himself as “a centrist democrat” (Spence 2013b).

Spence has taught at Harvard and Stanford, and he is now professor at New York University. A short biography on the NYU website ([link](#)) says that his work “focuses on economic policy in emerging markets, the economics of information, and the impact of leadership on economic growth.” In 2001, he was awarded the Nobel Prize in economics along with George Akerlof and Joseph Stiglitz for their work on asymmetric information. Spence developed a theory of signaling; for example, individuals may attain educational distinctions to signal their productivity.

His policy advice is rarely pointed; it has sometimes suggested greater government intervention. When speaking of how developing countries should emulate advanced economies after the 2008 recession, Spence stated:

Now, in the aftermath of a crisis that began with extreme distress in the advanced countries’ financial markets, the structure and regulation of the advanced-country systems are in the process of significant and permanent change in terms of regulatory structure and investor behavior. The lightly regulated model, with its strong presumption that self-regulation will be a stabilizing influence, has been rejected along with the assumption that sophisticated participants in sufficient numbers accurately perceive and manage shifting systemic risk. (Spence 2011a, 131)

In a paper with Sandile Hlatshwayo, Spence argued for politicians to address inequality and income distribution (Spence and Hlatshwayo 2011). On policy choices to achieve “equity,” Spence and Ravi Kanbur have written:

People generally care about equity for both moral and pragmatic reasons. Those reasons are translated into political and social choices and implemented by policy. The political challenge is to avoid the zero-sum game version of this exercise in which one person’s gain is another [*sic*] loss. Thus it is important to create and choose policies that deal with equity but also promote (or do not impede) growth

and expanding opportunity of an inclusive kind. The challenge must be thought of as an intertemporal one and not simply as a static redistributional one. (Kanbur and Spence 2010, 13)

In a 2011 book, Spence commented on the role of government: “Effective governments and markets are both essential ingredients. They are not in competition with each other but rather complementary parts of the process. To be sure, governments *can* be too intrusive. But they can also be too small and ineffective” (Spence 2011a, 95). Concerning economic freedom, Spence wrote:

The microeconomic dynamic is associated with investment for profit, entrepreneurial activity, entry, and exit. It is a decentralized, bottom-up process. To function, it requires a certain kind of economic freedom. In the modern era, that freedom includes access to markets and to financing, as well as a system of government and governance that allows people to exercise this freedom by making investments and forming businesses without excessively burdensome approval processes or outright restrictions. It also depends on some system of property rights. For the process of investment to operate, people must be able to own assets and buy and sell them. And it relies on a reasonable degree of stability, without which investment risk is elevated and investment suffers. (Spence 2011a, 104)

Spence speaks here of “freedom” and “forming businesses without excessively burdensome approval process or outright restrictions,” yet we have not found any call by Spence for liberalizing specific restrictions on freedom.

Spence has encouraged nations to strengthen their economies by investing in public assets (Spence 2013a). In a 2011 interview, Spence advocated stronger efforts to raise employment:

Some leader is going to have to stand up at some point and say we really need to spend money putting people back to work, period. ... [T]he way we’re doing it is putting all the burden on the unemployed while trying to leave the employed untouched. Eventually, this is going to require a redistribution of that burden. (Spence 2011b)

Spence’s critique of the free market includes both pragmatic and social aspects:

Markets are tools that, relative to the alternatives, happen to have great strengths with respect to incentives, efficiency, and innovation. But

they are not perfect; they underperform in the presence of externalities (the un-priced consequences—for example, air pollution—of individual actions), informational gaps and asymmetries, and coordination problems when there are multiple equilibria, some superior to others.

But markets have more fundamental weaknesses. Or, rather, most societies have important economic and social objectives that markets and competition are not designed to achieve. In today's rapidly globalizing world, the most important of these objectives—expressed in various ways through the political and policymaking process in a wide range of countries—are stability, distributional equity, and sustainability. (Spence 2012)

Professor Spence kindly responded to our questionnaire, sending the following message:

I grew up in Canada. So the context doesn't quite fit the American structure.

I think my family was and I was and remain what might be termed a centrist democrat, with respect for markets, incentives and freedom but with a view that there is an individual and a collective responsibility for inclusiveness, expressed partially through government.

In terms of evolution not much has changed in that respect, but I know much more about the world and the developing countries where 85% of the world's population live. I have always believed that government has a crucial evolving (with circumstances) complementary role to markets, to play. That belief has been reinforced by the experience of developing countries. (Spence 2013b)

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## George J. Stigler

by Daniel B. Klein

The only child of German-speaking immigrants to the United States, George Stigler (1911–1991) grew up in the Seattle area and attended the University of Washington, graduating in 1931. He went to Northwestern for his MBA, and then to the University of Chicago for his Ph.D. in economics, conferred in 1938. In his Nobel autobiography he described the professors and fellow students who influenced him during his graduate studies at Chicago:

The University of Chicago then had three economists—each remarkable in his own way—under whose influence I came. Frank H. Knight was a powerful, sceptical philosopher, at that time vigorously debating Austrian capital theory but gradually losing interest in the details of economic theory. Jacob Viner was the logical disciplinarian, and equally the omniscient student of the history of economics. Henry Simons was the passionate spokesman for a rational, decentralized organization of the economy. I was equally influenced by two fellow students, W. Allen Wallis and Milton Friedman. (Stigler 1983a)

In another autobiographical essay, besides his close friends Wallis and Friedman, Stigler mentions also Paul Samuelson, Kenneth Boulding, and Sune Carlson as fellow students, and writes: “The give-and-take among us students...was the first experience I had of constant exchanges in a circle of first-class minds, and I acquired a lifelong taste for it” (Stigler 1995, 99).

Beginning in 1936, Stigler taught at Iowa, Minnesota (there overlapping for one year with Friedman), Brown, and Columbia. Stigler then returned to teach at Chicago in 1958 and remained there. In 1982 he received the Nobel Prize in

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Economic Science chiefly for his work on the economics of information and on the economics of regulation.

After Stigler's death in 1991, a number of colleagues wrote memorials. Milton Friedman says that he and Stigler shared similar views on policy, but he remarks on a difference in attitude:

Though George and I agreed almost completely about appropriate public policy, he was never as active in the public policy area as I was. His empirical studies of industrial organization persuaded him that the political market, like the economic market, is ruled far more by self-interest than by any disinterested pursuit of the "public interest," and thereby led him to be one of the pioneers in what came to be called "public choice" economics. Accordingly, he became skeptical that appeals to the perverse effect of government policies on the public interest would be effective. "Until the basic logic of political life is developed," he wrote, "reformers will be ill equipped to use the state for their reforms, and victims of the progressive use of the state's support of special groups will be helpless to protect themselves." Though I fully agreed with his public choice approach, he and I had a running argument about the meaning and role of ideology and about the effectiveness of seeking to inform the public about where its "true" interest lay. ... [T]hough I believe we clarified our disagreement over time, we never resolved it. "Milton," he was fond of saying, "wants to change the world; I only want to understand it." (Friedman 1993, 772)

Stigler (1962a) saw intellectuals as tending to be hostile to market-oriented behavior:

The intellectual has never felt kindly toward the market place; to him it has always been a place of vulgar men and of base motives. ... [W]hatever the latent sympathies of the intellectual for the market place, the hostilities are overt. The contempt for the "profit motive" which directs economic activity is widespread, and the suspicion of the behavior to which it leads is deep-seated. The charge that American society is materialistic has been recited more often than the Declaration of Independence, and has been translated into more foreign languages. (Stigler 1962a)

In the opening pages of his memoirs, Stigler (1988, 4) says, "economists have been the premier 'pourers of cold water' on proposals for social improvement, to the despair of the reformers and philanthropists who support these proposals."

The story of Stigler's ideological character is, in one sense, fairly clear. In terms of what policies he was inclined to favor, the story seems to be this: From graduate school, influenced by the professors and fellow students mentioned above, particularly Knight, he is generally pro-market and quite skeptical about government activism. Those tendencies probably became more definite and more consistent over the years that Stigler and Friedman ripened; it is not unreasonable to think that Friedman's development in the 1940s and 1950s, leading into *Capitalism and Freedom* (Friedman 1962) and then beyond, led what was something of a common development among his associates. Stigler wrote: "Friedman has surely exercised one of the major intellectual influences upon me throughout my life" (Stigler 1995, 99). But in the development, Stigler is a fellow, not a follower.

In the 1960s and 1970s some of Stigler's contributions became cutting edges of the growing movement of anti-government economics. His work on information (Stigler 1961; 1962b) helped to weaken a widespread hostility to advertising (Stigler 1984; 1995, 109). More importantly, his work on the consequences of regulation (Stigler and Friedland 1962; Stigler 1963)—that it doesn't necessarily have the consequences supposedly intended—and then his theory of regulation and politics (Stigler 1971)—that selfish interests knowingly drive the process and typically prevail over the common good, so forget about how people represent their intentions—emboldened classical liberalism's offensive against the governmentalization of social affairs. In only one area of policy, it seems, namely, antitrust, did Stigler undergo a definite change of view, growing more classical liberal on the issue. So, overall, from a simple standpoint of policy views, Stigler's story is fairly clear and fairly simple.

At a deeper level, however, Stigler's ideological story is more complicated. David M. Levy (a student of Stigler's) and Sandra Peart are the authors of the entry on Stigler in *The New Palgrave Dictionary of Economics*. Levy and Peart (2008) frame their treatment in terms of Stigler undergoing a "change of attitude" between "his Knightian and his Mandevillean periods." They suggest that the Knightian period is represented particularly by an early *American Economic Review* article (Stigler 1943) and by *The Theory of Price* (Stigler 1946a).<sup>75</sup> Levy and Peart say the Mandevillean period is first marked by Stigler's adding a quotation from the "penetrating" Bernard Mandeville in the 1966 edition of *The Theory of Price* (1966, 68), and that Stigler's Mandevillean tendencies only grow thereafter. Stigler (1982, 13, 14) himself spoke of his having "erred," of the "error of my ways," with respect to things he said in the presidential American Economic Association address given in 1964 (Stigler 1965).

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75. To these representations of the "Knightian period" might be added Stigler 1948 and, as throwbacks, Stigler 1983b and Raisian and Stigler 1988.

This Mandevillean pall, as instantiated in—and, indeed, propounded in—Stigler’s writings, has several interrelated facets. One could make the case, I think, that the pall that came over Stigler was unhealthy, even a move that goes away from classical liberalism. In the present profile, however, I stick to the simpler, policy-views dimension, except for noting one facet of the deeper Mandevillean pall, namely Stigler’s remarks about the meaning of liberty.

Thomas Hazlett (in Stigler 1984) reports that in the late 1940s, as a young visiting lecturer at Columbia, Stigler showed an early bent toward free-market policies: “In [his] first address, Stigler detailed the counterproductive consequences of rent controls. He then exposed how minimum-wage laws create unemployment and discriminate against low-wage workers.” Stigler (1946b) criticized the minimum wage, and suggested a negative income tax (see on this Levy and Peart 2008). In 1946 Friedman and Stigler published a piece against rent-control called “Roofs or Ceilings? The Current Housing Problem” (Friedman and Stigler 1946).

Stigler remained throughout his career a premier Chicago school skeptic of government activism. He was president of the Mont Pelerin Society from 1976 to 1978. In 1988 John Raisian and Stigler published a straightforward op-ed against the minimum wage in the *New York Times* (Raisian and Stigler 1988)—pitting the Nobelist Stigler against the Nobelist Lawrence Klein, who had led a petition of 54 economists in favor of raising the minimum wage (Skidmore 1988). In an interview published in 1984, Thomas Hazlett asked Stigler, “What government program would you most want to see abolished?” Stigler begins his response by saying, “There’s a long list of them” (Stigler 1984; for another interview, see Stigler 1989).

The one policy issue on which Stigler clearly changed his mind is antitrust. “Until the 1950s I accepted the prevailing view of my profession that monopoly was widespread.... Some of the flavor of my views at the time can be gained from one of my few appearances before a congressional committee” (Stigler 1988, 97). Stigler then quotes from hearings held in 1950, including his statement, “it is my belief—speaking as an economist and not as a lawyer—that the basic trouble with the anti-trust laws...is their failure to recognize that when an industry is made up of, or dominated by, a few big firms, there is inherently a structure inconsistent with efficient competitive operation” (quoted in Stigler 1988, 98-99). In the then-present 1988, he then continues: “I now marvel at my confidence at that time in discussing the proper way to run a steel company.... What is still more embarrassing is that I no longer believe the economics I was preaching” (ibid., 99). Stigler then discusses the change of thinking occurring at Chicago during the 1950s and 1960s, pointing especially to Aaron Director and mentioning research by John McGee, Sam Peltzman, Harold Demsetz, and Lester Telser (ibid., 103; see also Kitch 1983, 209). Stigler proceeds to mention that in 1982 he had opportunity to appear as expert witness in the case of “the attempt by Mobil to take over (buy

out) Marathon Oil Company,” reporting that: “The judge ruled against Mobil (and me!)” (Stigler 1988, 104, 106).

Stigler, however, apparently never took a fully free-market line against antitrust. In the 1984 interview by Hazlett, Stigler said “I’ve learned,” and that he did not like the Clayton Act and would like to see the Federal Trade Commission abolished, but he said he still liked the Sherman Act (Stigler 1984). Whether one should regard the treatment of the issue of antitrust in his memoirs, published four years later, as evidence of further movement is uncertain.

In 1978 Stigler published a short article called “Wealth, and Possibly Liberty,” in which he says: “A wider domain of choice is another way of saying that a person has more freedom or liberty” (Stigler 1978, 214). He says: “The distinction between wealth and liberty is not easily drawn” and that “[t]he purpose of the distinction between wealth and liberty is also elusive” (ibid., 215-216). The drift of the piece is to sniff at talk of liberty. Meanwhile, within the piece, Stigler himself depends on the very distinction he is questioning, when he speaks of “voluntary transactions,” “coercion,” and of one being “free to enter” and “free to choose” (ibid., 213, 214).

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# Joseph E. Stiglitz

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Raised by parents that he has described as a New Deal Democrat and a Jeffersonian democrat, Joseph Stiglitz (1943–) grew up in Gary, Indiana, with somewhat mixed views of government. Early on, he was opposed to segregation and disturbed by civil rights violations. In his youth, he has said, he acquired an enduring “distrust of authority” (Stiglitz 2002a). He earned his Nobel Prize for his work on asymmetric information. Stiglitz sees market failures caused by such asymmetries, and often advocates government intervention in those areas. Stiglitz has acknowledged the problem of incentives in the political sphere, as well (Stiglitz 2002b, 523).

After earning his bachelor’s from Amherst College, Stiglitz went to MIT for his Ph.D. in economics. He taught at MIT, Yale, Oxford, Princeton, and Stanford before settling at Columbia. His work has been applicable to an array of economic issues, from credit rationing to efficiency wages. Karla Hoff writes:

His work elucidated a broad set of phenomena that had largely been ignored before 1970 because they were outside the limits of the standard paradigm: incentive contracts, bankruptcy, quantity rationing, financial structure, equilibrium price distributions, innovation, and dysfunctional institutions. This work contributed to a paradigm shift in economics. In the new paradigm, the price system only imperfectly solves the information problem of scarcity because of the many other information problems that arise in the economy. (Hoff 2008)

Stiglitz writes in his autobiographical essay: “The politics of MIT also suited me well. My teachers were mostly establishment liberals, but there were a few that were more questioning. I wonder too how I would have fared had I gone to one of the schools, like Chicago, where there is a more conservative bent. Would I have changed? Or would I have just been unhappy?” (Stiglitz 2002a).

In 1980 Stiglitz and Anthony Atkinson wrote:

The state... has a much more basic role to play in that its first function is to establish and enforce the “rules of the economic game.” ... The standard justification of state intervention takes as its starting point the behaviour of the economy in the absence of the government, that is,

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in the hypothetical situation of a free market economy. (Atkinson and Stiglitz 1980, 4-6).

They continued:

There is indeed little reason to believe that the market could function in the way assumed in the “no-government economy”: “one description of such a social order, and probably a highly realistic one, would be summarized by the word ‘chaos’” (Buchanan, 1970, p. 3). As we have argued... the state is essential to the functioning of a modern market economy—to prevent such “chaos” developing—by legitimizing property rights, by controlling monetary and financial operations, by regulating entry to economic activities, etc. (Atkinson and Stiglitz 1980, 8-9)

In 1989, Stiglitz remarked on redistribution:

In addition to those instances where the market fails to provide a (Pareto) efficient allocation of resources, the government may have a role, either because the resulting distribution of income is objectionable, or because there are some merit goods or bads not adequately supplied by the market. (Stiglitz 1989, 39)

Stiglitz, however, seems to advise against widespread government ownership in the production of goods and services:

The idea that private, profit-maximizing firms act in a way which is not consistent with the public interest, and that this discrepancy is especially important in certain central sectors—heavy industries, financial institutions, transportation—has been a central tenet in socialist ideology. A seeming (unproved) corollary is that if the government nationalized these enterprises, they would act in the public interest. (Stiglitz 1989, 31)

The public sector, say Stiglitz and Lyn Squire, “should focus its efforts on those areas where the private sector fails” (Stiglitz and Squire 1998, 144). “Defense, redistribution, the legal and judicial system, regulation of financial markets, and protection of the environment are all areas in which the public sector has to play the central role” (ibid., 144-145).

Stiglitz has attempted to strike a balance between the state and the market:

The new development agenda is informed by historical experiences and has discarded the notions of “only-Government” or “only-market” based development. This framework sees government and markets as complements rather than substitutes. It takes as dogma neither that markets by themselves will ensure desirable outcomes nor that the absence of a market, or some related market failure, will require that governments assume responsibility for the activity. It often does not even ask whether a particular activity should be in the public or private sector. Rather, in some circumstances, the new agenda sees government helping to create markets—as many of the East Asian economies did in key aspects of the financial market. In other circumstances (such as education), it sees the two working together as partners, each with its own responsibilities. In still others (such as banking), it sees government providing the essential regulatory services without which markets cannot function because investors will lack necessary confidence. The new agenda sees the State stretching beyond implementing Pigouvian taxation that corrects externalities, toward a complementary role that helps provide the information and institutional, human and physical infrastructure required for markets to exist and function well. (Stiglitz 1999, 3)

Although Stiglitz often makes general remarks about the need for markets, we have not found any calls by him for liberalization of specific restrictions. Stiglitz has signed petitions for raising the minimum wage, supporting the 2008 Federal Recovery Act, supporting augmentation of union privileges (“Employee Free Choice Act”), opposing the George W. Bush tax cuts, and endorsing John Kerry for president in 2004 (Hedengren et al. 2010).

David Henderson (2008) describes Stiglitz’s faith in government actors as “tempered,” possibly by his experience working with these agencies. He describes Stiglitz’s involvement in policymaking:

From 1993 to 2000, Stiglitz entered the political arena, first as a member and then as chairman of President Bill Clinton’s Council of Economic Advisers, and then as the chief economist of the World Bank. In this latter role he had major conflicts with economists at the International Monetary Fund (IMF) and at the U.S. Treasury over their views of government economic policy in Indonesia and other poor countries. Stiglitz objected to their advocacy of tax increases and tight monetary policy during times of recession, a policy that he called “market fundamentalism.” (Henderson 2008)

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Stiglitz explains his concerns with government action: “The problem is to provide incentives for those so entrusted to act on behalf of those who they are supposed to be serving” (Stiglitz 2002b, 523). Yet, he sees a partial solution: “Democracy—contestability in political processes—provides a check on abuses of the powers that come from delegation just as it does in economic processes; but...the electoral process provides an imperfect check” (ibid.). Stiglitz also has high hopes for the effectiveness of government transparency (ibid., 524).

Stiglitz says his insights cast doubt on the conclusions of competition-based economic models: “Some of the most important conclusions of economic theory are not robust to considerations of imperfect information” (Rothschild and Stiglitz 1976, 629).

In his Nobel lecture, he said:

We have seen how the competitive paradigm that dominated economic thinking for two centuries, not only was not robust, not only did not explain key economic phenomena, but also led to misguided policy prescriptions. (Stiglitz 2002b, 519)

Stiglitz means market-based policies, which, he contended, are “particularly inappropriate for developing countries” (ibid.).

Some of Stiglitz’s work on development economics is described by Hoff as follows:

His models were important in establishing (a) that positive feedback mechanisms can give rise to multiple equilibria and underdevelopment traps; (b) that, because the causes of market failures and constraints on growth vary greatly from setting to setting, analysis has to be done case by case; and (c) that non-market institutions need have no efficiency properties. (Hoff 2008)

With Lyn Squire, Stiglitz outlined three ingredients for growth: “a stable and credible policy environment, an open and competitive economy, and a focused public sector” (Stiglitz and Squire 1998, 142). He has criticized the trend of capital market liberalization, saying it hurts developing countries (Stiglitz 2002c, 244).

After the fall of communism, Stiglitz wrote, nations moved toward markets, and many assumed this would bring about higher incomes. “Instead, incomes plummeted, a decline confirmed not only by GDP statistics and household surveys, but also by social indicators” (Stiglitz 2002b, 519). Stiglitz blames rapid privatization that did not ensure good corporate governance: “rather than providing a basis for wealth creation, it led to asset stripping and wealth destruction” (ibid.).

With Squire, Stiglitz wrote:

The failure of state enterprises and the success of market economies have led to strong efforts to privatize and liberalize markets. But sometimes these efforts are motivated more by ideology than economic analysis and may proceed too far, too fast. When that happens, the economy may suffer. Privatizing a natural monopoly before an effective regulatory framework is in place may lead to higher, not lower, prices and may establish a vested interest resistant to regulations that encourage competition. Striking the right balance between unfettered markets and state regulation is difficult and requires a thorough understanding of how markets work. (Stiglitz and Squire 1998, 145)

Mahmood Mamdani (2012) asks whether Stiglitz changed his mind on deregulation: “Academic reviewers of Stiglitz have often wondered when he saw the light: did Professor Stiglitz oppose deregulation at the time or change his mind when its consequences became clear? Should we understand his critique of deregulation as foresight or hindsight, foresight in 1996 or hindsight after his time as Clinton’s senior policy advisor?”

By studying and exposing the costs of war, Stiglitz has to some extent positioned himself on foreign policy. In 2008, Stiglitz and Linda J. Bilmes published a book on the high cost of the war in Iraq (Stiglitz and Bilmes 2008), and he did various media events to publicize his findings, such as an interview at the website of *Foreign Policy* magazine (Stiglitz 2008). But, to our knowledge, Stiglitz does not often speak out in a more general way on foreign policy issues.

Writing on a fiscal stimulus in 2010, Stiglitz stated:

The United States needs a stimulus, but it needs to be well designed and quick-acting (and if current trends continue, the same will be true for Europe). Any stimulus will add to the deficit, and with the deficit soaring since 2002, it is especially important to have as big a bang for the buck as possible. The stimulus should address long-term problems—and at the very least, it should not make them worse. (Stiglitz 2010b, 79)

Stiglitz also advocated a global stimulus:

The crisis is global in nature and countries should put in place a response that is as coordinated as possible to avoid mass unemployment and the risk of increasing social tensions. Sheer prudence requires more stimulus. The world economy needs a more global stimulus and should not tolerate free riding by some countries. This

implies a fair sharing of the burden of the stimulus among countries, and a particular effort to help those countries that don't have the resources to lead a counter-cyclical fiscal policy. (Fitoussi and Stiglitz 2009, 3-4)

On tax cuts:

The Bush Administration had long taken the view that tax cuts (especially permanent tax cuts for the rich) are the solution to every problem. This is wrong. The problem with tax cuts in general is that they perpetuate the excessive consumption that has marked the US economy. ... A tax rebate targeted only at lower and middle income households makes sense, especially since it would be faster acting. (Stiglitz 2010b, 79)

In recent years, Stiglitz has called for greater “equality of opportunity.” “Americans are coming to realize that their cherished narrative of social and economic mobility is a myth,” he wrote (Stiglitz 2013a). He explained:

After 1980, the poor grew poorer, the middle stagnated, and the top did better and better. Disparities widened between those living in poor localities and those living in rich suburbs—or rich enough to send their kids to private schools. A result was a widening gap in educational performance—the achievement gap between rich and poor kids born in 2001 was 30 to 40 percent larger than it was for those born 25 years earlier, the Stanford sociologist Sean F. Reardon found. (Stiglitz 2013a)

In 1973, Stiglitz wrote that the United States' diverse school system was serving students well (Stiglitz 1973, 145), and added:

Some of the complaints against the educational system are really addressed to aspects of our economic system, particularly to the degree of inequality which it engenders. Although it has been argued that the educational system is not the cause of inequality, the difficult question remains: is it possible, and/or desirable, to use the educational system to promote greater equality? (Stiglitz 1973, 145)

In 2013, however, Stiglitz cited a widening educational achievement gap, saying inequality must be addressed: “[W]e have to reverse the damaging cutbacks to preschool education.... We have to make sure that all children have adequate

nutrition and health care—not only do we have to provide the resources, but if necessary, we have to incentivize parents, by coaching or training them or even rewarding them for being good caregivers. . . . Giving more money to poor schools would help. . . . Finally, it is unconscionable that a rich country like the United States has made access to higher education so difficult for those at the bottom and middle” (Stiglitz 2013a). Economic and educational inequality reinforce each other, Stiglitz said. He called for “substantial policy changes,” concluding: “We have an economic, and not only moral, interest in saving the American dream” (ibid.).

In a book Stiglitz published in 2010, he wrote of his early hopes that the new Obama Administration “would right the flawed policies of the Bush administration, and we would make progress not only in the immediate recovery but also in addressing longer-run challenges. The country’s fiscal deficit would temporarily be higher, but the money would be well spent: on helping families keep their homes, on investments that would increase the country’s long-run productivity and preserve the environment, and, in return for any money that was given to the banks, there would be a claim on future returns that would compensate the public for the risk it bore” (Stiglitz 2010a, xxiii).

Regarding the financial crisis, Stiglitz said that many in the financial sector “sold [home buyers] costly mortgages and were hiding details of the fees in fine print. . . . The financial elite support the political campaigns with huge contributions. They buy the rules that allow them to make the money. Much of the inequality that exists today is a result of government policies” (Stiglitz 2012a).

In 2013, Stiglitz addressed an AFL-CIO convention, saying in part:

We have become a house divided against itself—divided between the 99% and the 1%, between the workers, and those who would exploit them. We have to reunite the house, but it won’t happen on its own.

It will only happen if workers come together. If they organize. If they unite to fight for what they know is right, in each and every workplace, in each and every community, and in each and every state capital and in Washington.

We have to restore not only democracy to Washington, but to the workplace. (Stiglitz 2013b)

He concluded the speech by saying:

You must get others to join you, to work with you, to organize with you, to fight with you. It is only you who can raise the voice of ordinary Americans, and demand what you have worked so hard for. Together, we can grow our economy, strengthen our communities, restore the

American dream, and re-establish our democracy—a government not of the 1%, for the 1%, and by the 1%, but a government of all Americans, for all Americans, and by all Americans. (Stiglitz 2013b)

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## Richard Stone

by Daniel B. Klein and Ryan Daza

London-born John Richard Nicholas Stone (1913–1991) followed his mother’s footsteps in attending Cambridge, and initially planned to follow his father’s footsteps and go into law. Halfway through his undergraduate studies, however, Stone was inspired by the Great Depression to seek solutions in the study of economics (Stone 1985). Stone eventually developed a technocratic view of economic policy (Johansen 1985, 5; Wolfe 1968, 428).

At Cambridge, Stone learned statistics, modeling, and measurement from Colin Clark (Deaton 2008). During World War II, Stone worked at the Central Economic Information Service of the Offices of the War Cabinet on national accounting with James Meade. John Maynard Keynes, then working at the Treasury, recommended their work, which was then published in 1941 as a

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government white paper. Stone went on to become Keynes's assistant during the war, preparing national income and expenditure estimates.

After the war, Stone became the first director of the Department of Applied Economics at Cambridge. He remained at Cambridge until his retirement in 1980 (Stone 1985).

Stone won the economics Nobel in 1984 for his work on national accounts, specifically his integration of double-entry bookkeeping (Royal Swedish Academy of Sciences 1984).

Having worked on national income accounting from his early career onward, Stone took a pragmatic approach to economic policy, seeking primarily to make the economy "function more in accordance with contemporary social ideals" (Stone 1951). Leif Johansen (1985, 4-5) summarizes those ideals as including "stabilization of economic activity, equalization of income distribution and different forms of intervention in the competitive mechanism wherever necessary in order to ensure a more planned development of society." Stone (1951) rejected both laissez-faire and totalitarianism, holding high hopes that national measurement methods would advance economic organization.

In a review of two volumes in the Stone-edited series *A Programme for Growth*, John N. Wolfe wrote:

In a controversial but illuminating passage, Stone makes clear his view of the advantages and the shortcomings of laissez-faire. It offers the advantage of self regulation by means of decentralization of decision making. The objection to it is that it works "with limited values and limited information: the values of the market place and the information provided by current prices and by the prices on a small number of forward markets." (Wolfe 1968, 428)

Stone also recognized failures of intervention, specifically unintended consequences. He believed, however, that more accurate measurement and modeling could ameliorate the negative results of hands-on planning. In Wolfe's words, "Stone continues with the technocratic assertion that the issues before us should not be considered in terms of collectivism versus private ownership, but rather in terms of good planning versus bad planning.... [Stone saw] his role as providing a machine for coherent planning of the economy as a whole" (Wolfe 1968, 428).

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## Jan Tinbergen

by Daniel B. Klein and Ryan Daza

Born in the Netherlands, Jan Tinbergen (1903–1994) became involved early with social-democratic movements. Tinbergen became a member of the Social Democratic Workers Party (SDAP) in 1922, and he was active in the League of Social-Democratic Student Clubs (SDSC), founding a department of the SDSC in Leiden (Boumans 2003). As he moved into economic modeling, the motivation toward equality stayed with him. In an interview later in life, he said that he had great sympathy for the underdog and continued to advocate “democratic socialism” (Tinbergen 1992, 277; see also Tinbergen and Fischer 1987; Terhal 1988, 264).

After graduating in 1929 with a doctorate in Physics from Leyden University, Tinbergen worked studying business cycles for the Dutch Central Bureau of Statistics. He remained there for 16 years, with a two-year stint at the League of Nations from 1936–38. Tinbergen went on to become director of the Netherlands Central Planning Bureau from 1945 to 1955 (Lindbeck 1992). A trip to India in 1951 impressed Tinbergen with the need for research in economic development

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(Boumans 2003). From 1966 to 1975, he was chairman of the United Nations Committee on Development Planning (Beaud and Dostaler 1997, 425).

Tinbergen's major contribution to economics was in macroeconomic modeling. Tinbergen experimented with elaborate models, such as a model of American investment and business cycles (Tinbergen 1939) that incorporated some 70 variables and 50 equations (Friedman 1940, 657). Working to develop a more statistical basis for Keynesian ideas, Tinbergen in 1936 developed a proto-Phillips Curve (Bacon 1973).

Tinbergen's early work reflected his views on liberal economic policy: "In its most specific and most relevant sense the notion of economic policy will, however, refer to governments. ... Whereas in the nineteenth century governmental behavior was perhaps almost restricted to fiscal activity, since then the development has ever been more into the direction of an attempt at looking after the '*general interest*', in whatever sense that may be taken" (Tinbergen 1952, 1). He continued by comparing liberal and Marxist economics, and dismissing both:

Some schools of thought on economic policy believe that an optimum policy is guaranteed by a qualitative choice only. One example [is]... the Manchester school of liberal economic policy; their choice being that of "laissez faire." They believe they could prove that the maximum of general well-being would be automatically obtained by complete freedom of economic activity. Another example of a certain a-priori belief of this type is the extreme socialist opinion that only state ownership can be a guarantee for the maximum of general well-being. This example is, however, only a partial one, since policy would, the state ownership once established, involve a large number of quantitative decisions to be taken in consequence. Both these cases are examples of an "*aprioristic policy*", based on theories rather than on empirical research. (Tinbergen 1952, 1-3)

In the 1960s, Tinbergen continued his dismissal of liberal economic policy while promoting a centrally planned macroeconomy:

Long ago, when the word planning had not yet been invented, the elements of planned policy just enumerated were not wholly absent. Thus, even if no formal forecasts were made, policy makers had some ideas on what the future course of events might be. In many cases they may have used, consciously or unconsciously, what we now call one of the "naïve" methods of forecasting—for instance, by simple extrapolation of recent movements or by assuming no movement at

all. As is well known, cyclical downturns were not foreseen, leading to overproduction or, once they had occurred, to overpessimistic views on future development.

The formulation of aims of policy became more necessary after the belief in *laissez faire* was given up. Before that time there was no need for planning, since it was believed that free economic forces would lead to the best development conceivable. When this belief died it became necessary to formulate norms for optimum development. One of the current difficulties is that among many politicians, probably as a consequence of our education system, a preference exists for thinking in qualitative terms only. But an economic policy must be based on quantitative as well as qualitative formulations. (Tinbergen 1964, 43)

By 1966, Tinbergen's views on central planning further developed into world planning:

We can say that we have some beginnings already of such world planning and I would like to start with the treatment of my subject by just reminding you of what beginnings we, in fact, have. Of course, there are a whole set of international organizations, mainly the members of the United Nations family, but also others that do engage already in some economic planning. Once when, as I hope, the international political structure will become stronger, that planning will be the basis for a really international economic policy. ... All the [policy] measures I am quoting are in fact measures that have to be taken at the world level. It is, of course, conceivable that they be taken by some sort of agreement between autonomous countries but it would be much more efficient if they could be taken by something comparable to a World Government. ... I think the general interest does require that we have a strong Centre with a strong policy. (Tinbergen 1966, 70-71)

His views on liberal economic policies remained the same: "As a rule, today we would aim at reducing the inequalities between...regions. Formerly, in the time of *laissez-faire*, we did not care much about this" (Tinbergen 1966, 7).

In 1967 Tinbergen wrote a book for use in "universities as well as for some of the planning experts in governments," and he continued the condemnation of liberal economic policy:

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Policy-makers' social welfare functions are often influenced by some *general theories* or "*principles*" concerning economic policy, these tending to summarize experience with, or scientific insight into, this complicated matter, and more or less streamlining it. Liberal politicians, for example, tend to emphasize the importance of economic freedom of the individual, since they think they can rely on a number of self-adjusting forces in the economy for letting it adapt itself to changes and blindly find its optimum state. (Tinbergen 1967, 12)

The aims of economic policy have changed a good deal in the course of history. This has probably been partly due to changes in individual aims generally, but fluctuations in economic convictions have been more important. In particular, the belief that the economic mechanism might have sufficient inherent forces of self-regulation did, in the nineteenth century, exert considerable influence on public opinion. To the extent that this belief is still correct, economic policy may be one of abstention. Liberal politicians, on the basis of the liberal school of economic science, held this belief very strongly and consequently reduced the range of economic policy. (Tinbergen 1967, 15)

One of the further limitations to the relevance of the central proposition of free-enterprise economics is caused by the *static* character of the assumptions from which it is derived. No account is taken of the difficulties that may arise from the process of adaptation, for this necessarily requires a dynamic analysis. (Tinbergen 1967, 35)

Certain philosophers have advocated complete freedom as the governing principle of economic policy. Complete freedom has hardly ever existed in any regular society worthy of study. But it has been approached from time to time, and in widely varying degrees, either in small communities formed haphazardly, or in certain economies particularly devoted to the idea of freedom. . . . Briefly stated, complete freedom tends to resemble the state of affairs in the jungle and, as far as we know, in certain animal communities, where the strong and brutal rule. (Tinbergen 1967, 211)

Tinbergen concluded: "It is his [the author's] belief that some of the reforms listed should rank high in economic policy programs, and should be pursued with more energy than is the case at present. These are international integration, the international transfer of incomes, the introduction of built-in stabilizers and the raw material standard in the international field, and the application of family

planning, of industrial democracy and the equalization of opportunities, in the national field” (Tinbergen 1967, 208).

On the global level, Tinbergen prescribed a mix of free trade and protectionism: “The oversimplified theories of international trade even tell us that simultaneously the wellbeing of all countries of the world will be maximized by the abolition of all obstacles to trade. Such a statement goes too far; on the one hand, some protection of infant industries in young countries is generally recognized to be desirable. On the other hand, the theory of the optimum tariff tells us that maximum wellbeing for a country having a very large share in world trade may be obtained by imposing that tariff, to the detriment of the rest of the world” (Tinbergen 1970, 6). Tinbergen then proposed that multinational enterprises seek out the “optimal international division of labor.” To check possible abuses by large corporate business, Tinbergen required “supervision of multinational enterprises by supranational bodies, such as the United Nations” (Tinbergen 1970, 8).

At a United Nations Institute for Training and Research lecture in 1971, Tinbergen stated: “After the practical experience of the highly unequal income distribution in a completely free society the necessity of institutions performing income redistribution became evident. The discovery of the manifold external effects of a number of activities has gradually made it clear why ‘the state’ must be among the institutions of an optimal order. A long list of activities can be given which cannot be left to free enterprise: the provision of security, of sound money, of a sufficient level of total demand and of total savings, the regulation of unstable markets, education, the maintenance of the road system and so on” (Tinbergen 1971, 8).

In 1975, Tinbergen wrote a chapter on the problem of defining justice and equity: “The present attitude of agnosticism vis-à-vis a definition of equity or justice which is also preferred by most economists was preceded by a period in which many economists whom we in Europe call liberalist—or Manchester liberals—did have a definition of justice. Justice was considered to consist of the equality between an individual’s *income received* from society and his *contribution* to society by making available part of the production factors he owned. The definition is typically individualistic in that it deals with the relationships of each individual to society as an abstract entity and does not compare individuals to each other.” Tinbergen delivered his view: “In increasing numbers members of our society are doubting this interpretation of what we feel when we speak about justice or equity. ... Our positive suggestion consists of adhering to the definition that equity stands for *equal welfare for all individuals*” (Tinbergen 1975, 129-130).

In the same book, Tinbergen continued to discredit modern liberalism on a moral level and espouse government intervention: “We will define as income distribution policies all intervention into the process of income formation with the

general objective of changing income distribution. ... [The advantages of indirect policies, which have an impact behind the market] is that they do not disrupt but rather shift the equilibrium. ... In one way or another income distribution policies are meant to change the free market order or *laissez-faire*, exactly because the outcome of such a completely free system is considered to be ethically unacceptable. This they have in common with a long list of modern public interferences, from prohibition of child labour to imposition of ecological standards” (Tinbergen 1975, 137).

By 1985, Tinbergen turned to academic Marxism to discuss “the deeper aims of a socialist order”: “Marx explicitly claimed that we should aim at *scientific* socialism; and science is a continuing process of *posing questions*, and trying to answer them, testing the answers by *empirical research* and then posing *new questions*. ... In other words, a truly Marxian attitude is to join the process of *scientific research*, using all new evidence available, to develop new insights” (Tinbergen 1985, 175).

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## James Tobin

by Daniel B. Klein and Ryan Daza

James Tobin (1918–2002) was one of the generation of economists influenced by growing up during the Great Depression. Tobin says his interest in macroeconomic problems came from his mother, a social worker dealing with the unemployed, and his father, who was intellectual and a “liberal on his own” (Tobin 1999b, 868). Tobin seems to have been fairly constant in his view, favoring private markets subjected to regulation and Keynesian management (Krugman 2002).

Tobin (1999b, 870-871) highlights Keynes’s influence during his youth: “Keynes was fascinating because it looked like he had a fruitful new way of going about economics. To me, it looked like fun. And then on the other hand this was also a revolt. I think revolts against old established wisdom are exciting to young people. It was exciting to me even though I had not been really taught the old economics enough to know what Keynes was revolting against. ... Keynes was a keen observer of the real world. It had the ring of truth to my ears back then.”

Tobin went to Harvard University for undergraduate and graduate work. In college, Tobin was a New Dealer (Tobin 1986, 118) and recalls that Franklin D. Roosevelt was his political hero (Tobin 1996, 661). In his Nobel autobiographical notes, Tobin wrote: “The miserable failures of capitalist economies in the Great Depression were root causes of worldwide social and political disasters” (Tobin 1982a).

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Tobin's doctoral studies were interrupted by the War. He held a position at the Office of Price Administration and Civilian Supply which helped France and Britain allocate scarce materials away from civilian use for military programs. He remembers enjoying working in the bureaucracy in Washington before the United States entered the war (Tobin 1999b, 872). During World War II, Tobin joined the U.S. Navy and served overseas as a navigator of a naval destroyer for three and a half years (*ibid.*). Upon returning to civilian life, he returned to Harvard to finish his Ph.D.

Tobin joined the faculty at Yale University in 1950 and remained at Yale thereafter. He won the Nobel Prize in 1981 “for his analysis of financial markets and their relations to expenditure decisions, employment, production and prices.”

Tobin claimed to be part of the “Yale school,” to be contrasted with the “Chicago school.” Tobin reflected:

I think that what people mean by the Yale school goes back to the 1950's. It is identified with my, and Art Okun's, macroeconomic and monetary views and teachings. ... In our work we attempted to provide a reasonably systematic view of what Keynesian economics was, and what applications were possible. In monetary theory, the Yale school provided an alternative to monetarism. It involved the possible roles of monetary and fiscal policy. I was very much involved in that controversy with monetarists. (quoted in Colander 1999, 120)

Tobin also spoke of conflict with “the enemy,” the real-business-cycle theorists:

That's what we've been fighting about all these years, and that's just a repetition of the conflict between Keynes himself and the economists he regarded as Classicals—not the best word to use for them. The New Classicals and the real-business-cycle believers are much more extreme than the people that Keynes was arguing with in his day, but it's the same argument over again. Actually, Pigou was a much more reasonable, plausible economist than Lucas and some of the other New Classicals. (quoted in Colander 1999, 123)

At his Nobel banquet, Tobin (1982b) said of economics that “a subject so close to politics and policy inevitably blends ideology and science. The vision and energy that bring new ideas are often ideological and political, but free professional scrutiny selects the ideas deserving of survival.”

As economic advisor to John F. Kennedy, Tobin helped craft a tax cut, and later opposed Ronald Reagan's tax cuts. Criticizing the Johnson Administration

for failing to prioritize the war on poverty over the Vietnam war, Tobin lamented: “[T]he issue of inequality [is] too long off the agenda of American politics. It is high time—let us hope it is not too late—to take drastic action to reduce economic inequality. I hope that affluent middle-class Americans and their leaders have enough political maturity and perspective to take such action even though they have to tax themselves to finance it” (Tobin 1968, 28-29).

In 1970 Tobin wrote a paper outlining a concept of “specific egalitarianism”:

This is the view that certain specific scarce commodities should be distributed less unequally than the ability to pay for them. Candidates for such sentiments include basic necessities of life, health, and citizenship. Our institutions and policies already modify market distributions in many cases, and the issues raised by specific egalitarianism are central to many proposals now before the country. (Tobin 1970, 264)

Tobin did make comments critical of certain welfare state policies: “Inflationary bias [from Keynesian protagonists of the 1970s], was exacerbated by social welfare legislation, extended and expanded as it was by postwar administrations and Congresses of both parties, most dramatically beginning with the Great Society programs of the late 1960s. Social insurance dulls to some degree the incentive to seek and accept employment, especially the less remunerative or attractive jobs” (Tobin 1983, 33). He continues: “The promotion of monopolistic powers for unions of workers and farmers was justified by J. K. Galbraith and others as countervailing the monopolistic powers of big business, to the benefit of society as a whole. This dubious proposition was never congenial to liberal Keynesians devoted principally to full employment and diminished inequality” (ibid.).

But Tobin believed that Ronald Reagan’s “counter-revolution” went too far:

Equality of opportunity has been an American ideal... Opportunities are actually far from equal. We Americans escaped the feudal castes of the Old World, but erected our own racial, religious, and ethnic barriers. ... Here as in other democracies, governments have sought to arrest the momentum of inequality by free public education, social insurance, ‘war on poverty’ measures, and progressive taxation. U.S. budget and tax legislation of 1981 is a historic reversal of direction and purpose. ... [T]he message is clear enough; inequality of opportunity is no longer a concern of the federal government. ... In the hasty competition of both parties for the favor of wealthy constituents,

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Congress casually liberalized these taxes without concern for unchecked dynastic wealth and inequality of opportunity. (Tobin 1983, 36-37)

Tobin was not shy in his criticism of the Reagan Administration's economic policies:

The Reagan economic program is advertised to cure inflation and unemployment, to revive productivity, investment, hard work, and thrift. It probably cannot achieve those wonderful results. What it is sure to do is to redistribute wealth, power, and opportunity to the wealthy and powerful and their heirs. If that is its principal outcome, the public will become considerably disenfranchised. Despite its free market ideology, the Administration has done little to dismantle regulation and subsidies that are costly, inefficient, and inflationary. ... The Administration is by no means devoted to market freedom, competition, and consumer interest as to challenge important business, labor, and farm constituents. These politically sacred cows have been around a long time, and no other administrations have mustered the will or power to kill them either. But an administration that claims a popular mandate for counter-revolution should not leave unscathed the most objectionable features of the old order. (Tobin 1983, 38)

Tobin, however, also cautioned against and even criticized over-regulation. "We should be especially suspicious of interventions that seem both inefficient and inequitable, for example, rent controls in New York or Moscow or Mexico City, or price supports and irrigation subsidies benefiting affluent farmers, or low-interest loans to well-heeled students" (Tobin 1994, 330).

Tobin (1978) suggested a small tax to reduce currency speculation, an idea that became known as the Tobin tax (see Tobin 1999a, 167). But Tobin (2001) strongly objected to others' proposals that a "Tobin tax" be used to limit trade in goods, expressing his support for the International Monetary Fund, World Bank, and World Trade Organization.

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## William Vickrey

by Daniel B. Klein, Ryan Daza, and Hannah Mead

William Vickrey (1914–1996) was born in Victoria, British Columbia, and attended Phillips Academy in Andover, Massachusetts, for high school. He went to Yale for his bachelor’s degree and graduated in 1935 with a B.S. in mathematics. He received his master’s in 1937 and Ph.D. in 1948 from Columbia University; being “a Quaker, a pacifist, and a moral economist” (Holt et al. 1998, 1), Vickrey was a conscientious objector in World War II (Brownlee and Ide 2013, 202). Vickrey became a professor at Columbia and remained there for the rest of his career.

Richard Arnott (1998, 108) ascribes to Vickrey a primary concern with social justice (see also Drèze 1998), yet Vickrey often recommended unorthodox policies to better achieve his ethical goals (Warsh 1996). Few of Vickrey’s recommendations were implemented because of his “lack of political sensibility” (Holt et al. 1998, 1). However much Vickrey may have lacked said sensibility, we admire Vickrey not least for the way his discourse can assume an ethical voice in a candid and natural manner (see, for example, Vickrey 1979). David Colander (1998) warmly treats Vickrey’s willingness to carry “kooky” ideas forward, both in the profession, not minding that it would take ten or twenty years for others to come around, and in personal life, such as roller-skating to work.

In 1996, Vickrey was awarded the Nobel along with James Mirrlees “for their fundamental contributions to the economic theory of incentives under asymmetric information”—in Vickrey’s case, particularly for his work on taxation. His colleague Paul Davidson recalls the days following the prize announcement: “In a flurry of interviews between the eighth and the eleventh of October, Vickrey noted that he was pleased to be a Nobel laureate not for the money that he would personally receive but for the public platform it would afford him to explain how ‘the insane pursuit of the holy grail of a balanced budget in the end is going to drive the economy into a depression.’ Here finally was a voice that could attract attention to the Keynesian verity that there was an important role for the government ‘to exercise a guiding influence’ to ensure that effective demand is maintained at its full-employment level” (Davidson 1997, 493).

Sadly, no such service was Vickrey able to perform, for just three days after the award announcement he suffered a fatal heart attack.

Vickrey is well known for his writings on taxation, but he worked on a variety of issues. “[H]is choice of topics stemmed from social and moral concerns, [and] his treatments of them stressed improvements in resource allocation. . . . ‘Greater efficiency for the common good’ would be an appropriate slogan for his work” (Arnott 2008). Timothy Canova says that Vickrey “pointed out that the official

unemployment rate seriously understates the true level of joblessness and underemployment. Mass unemployment, he argued, remains one of the most significant contributing factors to a wide range of ‘social pathologies,’ including poverty, homelessness, crime, drug abuse, divorce, domestic violence, broken homes, racial and religious antagonisms, and neglect of educational opportunities. He urged a program of what he called ‘chock-full employment’ to address the full range of pressing social problems” (Canova 1997, 97).

In an obituary for Vickrey, David Warsh describes his politics: “[H]e remained to his death a committed Keynesian, preoccupied with the specter of global oversaving. But his contributions to financial engineering were on par with those other progenitors of privatization deregulation. ... Vickrey was...a dispassionate investigator of capitalism who kept his liberal convictions in the background”(Warsh 1996).

Before working toward his doctorate degree, Vickrey worked in the Tax Research Division of the U.S. Treasury (Arnott 1998, 97). In an early paper, he proposed making income taxes more equitable by using cumulative averaging to smooth tax bills (ibid.). His extensive dissertation, published as *Agenda for Progressive Taxation* (Vickrey 1947), outlined more new taxation schemes. Vickrey aimed to “provide a fairly detailed analysis of some of the problems involved in progressive taxation and to suggest how these problems can best be met” (ibid., iii). His purpose was to provide an agenda for lawmakers “who are interested in improving the progressive elements in our tax structure.” He continued: “Accordingly, skipping briefly over the philosophical and theoretical background of progressive taxation, I have proceeded to discuss point by point just what must be done to weld our progressive tax structure into a consistent, workable system, reasonably free from undesirable repercussions and capable of producing substantial redistributions of income” (ibid., iii-v). “The ultimate goal should be a tax system in which income, spending, and succession taxes (and as a remote possibility, taxes on net worth) are the only taxes levied primarily for revenue. Other taxes should be designed, both as to rates and form, independently of revenue considerations” (ibid., 392).

He continued:

It may be felt by many that the reforms suggested here are too utopian and perfectionist. To be sure, the present trend is all in the direction of simplification and of overlooking refinements that involve additional allowances or computations, and indeed there is much to be said in favor of simplification. (Vickrey 1947, 393)

If a tax is set up so that the burden is the same regardless of the action of the taxpayer, it follows that there will be no loopholes by which the taxpayer can escape tax. There will be no need to try to circumscribe the avenues of avoidance by detailed and minute distinctions between the treatment to be applied to various possible lines of action, nor will there be any occasion to superimpose upon the law a patchwork of loophole-plugging provisions. In the long run, the correct method will usually pay bigger dividends in simplicity and freedom from unforeseen difficulties than rough and ready approximations. (*ibid.*, 395)

In 1992, Vickrey offered an “Updated Agenda for Progressive Taxation,” in which he called for a more neutral capital gains tax through raising rates for longer holding periods (Vickrey 1992a, 257). He proposed encouraging investment by cutting the corporate income tax (*ibid.*, 258).

Government debt was a topic that was prominent in some of Vickrey’s later writings. In 1986 Vickrey stated that, when lawmakers decide on a level of debt finance, the most important consideration should be the maintenance of full employment: “The loss of output and the social problems that arise from unemployment are such serious matters as to dominate all other considerations” (Vickrey 1986, 12).

In 1993, Vickrey wrote in a working paper: “We are not going to get out of the economic doldrums as long as we continue to be obsessed with the unreasoned ideological goal of reducing the so-called deficit. The ‘deficit’ is not an economic sin but an economic necessity. Its most important function is to be the means whereby purchasing power not spent on consumption, or recycled into income by the private creation of net capital, is recycled into purchasing power by government borrowing and spending. Purchasing power not so recycled becomes nonpurchase, nonsales, nonproduction, and unemployment” (Vickrey 2000, 189).

In another piece published posthumously, Vickrey wrote: “Full employment requires large government debts. For the industrialized world as a whole, and for most of its constituent countries individually, it has become impossible, for the foreseeable future, to achieve sustained adequately full employment without large and growing government debt and corresponding budget deficits” (Vickrey 1997, 497). In the same paper Vickrey made similar pronouncements, such as: “Large government debt can have a stabilizing effect” and “A larger government debt can increase the real heritage left to future generations” (1997, 508-509).

Vickrey also developed an idea of how to avoid the Phillips Curve tradeoff between inflation and unemployment. According to Vickrey, the existence of the tradeoff is an institutional outcome:

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It is one of the awkward facts of current political life that unless unemployment reaches extreme levels, those who tend to regard inflation as a more serious threat to their well-being are likely to outnumber significantly those who think employment is the greater threat. ... The tendency to regard inflation as the greater evil is especially strong in influential financial circles and among monetary authorities. Accustomed to focus on values expressed in terms of money, they tend to regard inflation as a kind of sacrilege against the integrity of the monetary unit in terms of which good and evil tend to be calculated. ... Indeed, under current practices the only way in which fiscal and monetary authorities can restrain inflation is by creating unemployment. The evil inheres not in inflation per se but the inept measures taken to suppress it. (Vickrey 1992b, 341)

Arnott summarizes Vickrey's proposal:

Why not, Vickrey reasoned, create [a]...market for price increases (at least for major standardized products)? By restricting the number of marketable markup warrants, the government could control the overall level of price increases, and could therefore pursue expansionary macroeconomic policy, thereby reducing unemployment, without worrying about creating inflationary pressures. The proposal is ingenious but at the same time not very sensible. (Arnott 1998, 107)

On Social Security, Vickrey wrote: "Privatization, or other moves towards full actuarial funding of old-age pension provisions of social security systems can be disastrous" (Vickrey 1997, 502).

On the size of government, Vickrey wrote: "Unemployment-reducing fiscal policy does not require an increase in the overall size of government operations. To be sure, anarchy-libertarians have combined the mystique of the balanced budget with appeals to a popular aversion to taxes to promote an indiscriminate downsizing of government. But full employment can be reached by either high taxes and even larger government, or by low government and even smaller taxes" (Vickrey 1997, 503).

In the 1993 working paper, Vickrey wrote: "Many profess a faith that if only governments would stop meddling and balance budgets, free capital markets would in their own good time bring about prosperity, possible with the aid of 'sound' monetary policy. It is assumed that there is a market mechanism by which interest rates adjust promptly and automatically to equate planned savings and investment in a manner analogous to the market by which the price of potatoes balances

supply and demand. In reality no such market mechanism exists. If a prosperous equilibrium is to be achieved, it will require deliberate intervention on the part of monetary authorities” (Vickrey 2000, 200).

Vickrey did extensive work showing the efficacy of tolls for easing congestion. A pre-eminent urban transport economist, Vickrey created the first useful model of bottleneck traffic dynamics (Arnott 2008).

Although Vickrey was often disappointed at the lack of implementation of his policy suggestions, his work has had some major impacts.

His seminal work on auction theory has already had a major impact on the allocation of drilling rights, timber rights and bandwidth; his work on marginal-cost pricing has been influential in the adoption of more sophisticated pricing policies by a wide range of public utilities and will become increasingly influential as cost-effective technologies to implement his proposals are developed; congestion pricing of urban auto travel is being actively debated in a host of jurisdictions, and crude forms of it have been introduced in some... (Arnott 1998, 93)

On the purposes of economics, Vickrey once commented: “Our best hope is probably to make the self-interest-powered part of our economic system as smooth-running as possible, so that more and more of our conscious effort can be directed towards the solution of those problems that cannot be resolved without explicit ethical considerations” (Vickrey 1953, 177). This comment, Arnott says, “provides at least part of the answer to...why Vickrey, despite his strong commitment to social justice, tended to propose policies aimed at improving efficiency” (Arnott 1998, 108).

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## Oliver E. Williamson

by Daniel B. Klein, Ryan Daza, and Hannah Mead<sup>76</sup>

Oliver Williamson (1932–) was born and raised in Superior, Wisconsin. His parents were both high school teachers in a small rural town. Williamson’s father and grandfather joined to start a small business in real estate. Williamson reflected on his father:

My father was...outgoing and had an unusual gift with children. His own children were devoted to him. He was friends with and was regularly consulted by other youngsters. He was Superior’s Santa Claus—at the Kiwanis, the orphanage, for neighbourhood kids, his grandchildren, and on request—for about fifteen years. He was also active in civic affairs—the Chamber of Commerce, the hospital and was on the City Council for about twelve years, ten of them as its President. His generous spirit was combined with fiscal conservatism. His integrity was legendary. (Williamson 1986, xi-xii)

Williamson, attracted to math and science in high school, decided to become an engineer (Williamson 1986, xii). He enrolled in Ripon College’s joint program with MIT and earned his bachelor’s degree; while at MIT, Williamson was mentored by Kenneth Arrow (Williamson 2010). After working as an engineer, which gave him the “opportunity to learn about both big government and big business” and “got a good idea of how bureaucracy functioned” (Williamson 1986, xii), Williamson went to Stanford for graduate school, but decided to switch from business to economics (Williamson 2010), moving on to Carnegie-Mellon for his Ph.D. Upon earning his degree, Williamson became a faculty member at the University of California at Berkeley. He went on to the University of Pennsylvania and Yale University, then returned to Berkeley in the late 1980s and has stayed there since (Williamson 2010).

Focusing on the effect of formal and informal institutions on transaction costs, Williamson was a pioneer in what has become known as New Institutional Economics. In 2009, he won the Nobel Prize in Economics “for his analysis of economic governance, especially the boundaries of the firm,” sharing the prize with Elinor Ostrom. The Nobel committee described Williamson’s contribution as providing “a theory of why some economic transactions take place within firms and other similar transactions take place between firms, that is, in the marketplace.”

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76. We thank Peter G. Klein for feedback on this profile.

Alex Tabarrok explains Williamson's thinking using the context of Adam Smith's pin factory:

Following Coase, Williamson asks different questions, 'Why a pin factory?' 'Why are the 18 steps to make a pin performed by a single firm rather than two or more?' 'Why are there many firms instead of one large firm?' 'Why does the pin factory not vertically integrate upwards to buy the steel factory and downwards to buy the retail hardware shop?'

Williamson's answers rest on the notions of bounded rationality, contract incompleteness, asset specificity and opportunism. Start at the end, asset specificity and opportunism. When a deal has been sealed the parties typically move from having many potential partners to being locked in. That's bad because it raises the possibility of opportunism—one party can exploit the other. But it's also good because when the lock-in is credible each party may be more willing to invest in assets which are extra-productive but specific to the relationship. (Tabarrok 2009)

Williamson is very reserved and reticent in policy judgments and politics. On the whole, we get the impression that he is not hostile to classical liberal, free-market ideas.

The economist Peter Klein, of the 'Austrian' school, says, "Williamson is no Austrian," but that Williamson "is sympathetic to Austrian themes (particularly the Hayekian understanding of tacit knowledge and market competition)." In the classroom, Williamson "encourages students to read the Austrians (particularly Hayek, whom he cites often)" (P. Klein 2009).

Having worked at the Antitrust Division of the U.S. Department of Justice, Williamson has applied his theories of the firm, specifically vertical integration, to issues of antitrust. Carl Shapiro describes Williamson's bearing at this juncture:

Williamson was skeptical of the conventional wisdom of the time, which presumed that the purpose and effect of many vertical practices was the enhancement of market power and the erection of entry barriers. Contrary to this view, which was widely adopted by antitrust lawyers and courts in the 1960s, Williamson could see rationales for various vertical practices that were based instead on economic efficiency. (Shapiro 2010, 138)

Williamson also saw that transaction costs apply not only to firms but also to governments. He notes that, prior to changes in thinking, "whereas markets were

subject to ‘failures’ for which corrective public policy measures were prescribed, there was no corresponding provision for failures in the public sector” (Williamson 2010).

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## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES



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