



EJW

ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

George A. Akerlof [Ideological Profiles of the Economics Laureates]

Daniel B. Klein, Ryan Daza, and Hannah Mead

Econ Journal Watch 10(3), September 2013: 258-264

Abstract

George A. Akerlof is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills [the September 2013 issue of *Econ Journal Watch*](#).

Keywords

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

JEL classification

A11, A13, B2, B3

Link to this document

http://econjwatch.org/file_download/713/AkerlofIPEL.pdf

George A. Akerlof

by Daniel B. Klein¹, Ryan Daza², and Hannah Mead³

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

1. George Mason University, Fairfax, VA 22030.

2. Washington, DC 20018.

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

ECON JOURNAL WATCH

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).⁴ 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)

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.”

ECON JOURNAL WATCH

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).

References

- Akerlof, George A.** 1970. The Market for “Lemons”: Quality Uncertainty and the Market Mechanism. *Quarterly Journal of Economics* 84(3): 488-500.
- Akerlof, George A.** 2002. Autobiography. In *Les Prix Nobel: The Nobel Prizes 2001*, ed. Tore Frängsmyr. Stockholm: Nobel Foundation. [Link](#)
- Akerlof, George A.** 2003. The Worst Government the US Has Ever Had [interview by Matthias Streitz]. *Spiegel Online*, July 29. [Link](#)
- Akerlof, George A.** 2007. The New Case for Keynesianism: Interview with George Akerlof. *Challenge* 50(4): 5-16. [Link](#)
- Akerlof, George A.** 2009a. Interview by Karen Ilse Horn. In *Roads to Wisdom: Conversations with Ten Nobel Laureates in Economics* by Horn, 203-220. Cheltenham, UK: Edward Elgar.
- Akerlof, George A.** 2009b. Interview by Dwyer Gunn. *Freakonomics.com*, April 30. [Link](#)
- Akerlof, George A., and Robert J. Shiller.** 2009a. *Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism*. Princeton, N.J.: Princeton University Press.
- Akerlof, George A., and Robert J. Shiller.** 2009b. Good Government and Animal Spirits. *Wall Street Journal*, April 24. [Link](#)
- Akerlof, George A., and Janet Yellen.** 1996. New Mothers, Not Married: Technology Shock, the Demise of Shotgun Marriage, and the Increase in Out-of-Wedlock Births. *Brookings Review* 14(4): 18-21. [Link](#)
- Hedengren, David, Daniel B. Klein, and Carrie Milton.** 2010. Economist Petitions: Ideology Revealed. *Econ Journal Watch* 7(3): 288-319. [Link](#)
- Henderson, David R.** 2008. George A. Akerlof. In *The Concise Encyclopedia of Economics*, ed. Henderson. Liberty Fund (Indianapolis). [Link](#)
- Horn, Karen Ilse.** 2009. *Roads to Wisdom: Conversations with Ten Nobel Laureates in Economics*. Cheltenham, UK: Edward Elgar.
- Kling, Arnold.** 2009. Animal Spirits. *Independent Review* 14(1): 135-140. [Link](#)
- Kotlikoff, Laurence J.** 2011. The Purple Health Plan. Open letter. [Link](#)

- Loungani, Prakash.** 2011. The Human Face of Economics: Prakash Loungani Profiles George Akerlof. *Finance & Development* (International Monetary Fund), June: 2-5. [Link](#)
- Main, Brian G. M.** 2008. Akerlof, George Arthur (born 1940). In *The New Palgrave Dictionary of Economics*, 2nd ed., eds. Steven. N. Durlauf and Lawrence E. Blume. Basingstoke, UK: Palgrave Macmillan. [Link](#)
- Rosen, Richard L., Michael D. Thorpe, and Aarash Haghghat,** eds. 2012. Brief of *Amici Curiae* Economic Scholars in Support of Petitioners Urging Reversal on the Minimum Coverage Issue. No. 11-398, Secretary of Health and Human Services, et al., v. State of Florida, et al. Washington, D.C.: Supreme Court of the United States.
- Uchitelle, Louis.** 2009. Irrational Exuberance. *New York Times*, April 17. [Link](#)

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)