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Peter A. Diamond [[Ideological Profiles of the Economics Laureates](#)]

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Abstract

Peter A. Diamond 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

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http://econjwatch.org/file_download/721/DiamondIPEL.pdf

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:

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 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.