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Robert F. Engle III [Ideological Profiles of the Economics Laureates]

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Abstract

Robert F. Engle III 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/722/EngleIPEL.pdf

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

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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

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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: