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Robert E. Lucas Jr. [Ideological Profiles of the Economics Laureates]

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Abstract

Robert E. Lucas Jr. 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.

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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

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.