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Merton H. Miller [Ideological Profiles of the Economics Laureates]

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Abstract

Merton H. Miller 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/748/MillerIPEL.pdf

> 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[40]

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

40. We thank Sam Peltzman for his help on this profile.

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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

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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)

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)

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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. …

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> 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.

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