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James A. Mirrlees [Ideological Profiles of the Economics Laureates]

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Abstract

James A. Mirrlees 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

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http://econjwatch.org/file_download/749/MirrleesIPEL.pdf

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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.

In 1996, he was awarded the Nobel Prize, shared with William Vickrey, “for their fundamental contributions to the economic theory of incentives under asymmetric information.”

Drawing on his mathematical background, Mirrlees created a model for solving the problem of optimal taxation. His work yielded at least one surprising result: “I must confess that I had expected the rigorous analysis of income-taxation in the utilitarian manner to provide arguments for high tax rates. It has not done so” (Mirrlees 1971, 207).

Recognizing that incentives matter, Mirrlees did not take a naïve view of redistribution:

People might have some doubts about the measurability, perhaps even about the meaningfulness, of utility; but at least in a rough and ready way, there was a strong case for thinking that transfer from richer to poorer was an improvement. Carrying that to the logical extreme, the riches of the earth should be equally distributed.

It was not a popular policy, in part for good reasons. Obviously if a perfectly equalising policy were carried out, the ordinary incentive to work would be eliminated. “From each according to his abilities, to each according to his needs” (Karl Marx, *Criticism of the Gotha Programme*) is not thought to be feasible, even if desirable. Nothing in the simple model allowed for that. (Mirrlees 1997b, 1313)

In an interview, Mirrlees brought up an argument he had heard, that since tax money goes to good programs, people ought to be happy to pay taxes. He said:

I wish that people felt like that about taxes. But of course the work I’ve done has mainly been recognising that people do not feel like that about taxes and that it apparently even got to the point of discouraging quite a lot of people from earning as much as they might have, which in particular I mean they no longer pay as many taxes as they should. I suppose that I’m forced to see that high tax rates do induce quite a lot of people to find ways of avoiding them, or evading them. (Mirrlees 2004)

Still, he isn’t as concerned about high tax rates as some. Speaking of Europeans, he said: “I suppose I don’t quite understand why they don’t think they’re getting a lot of it back, because actually a lot of the benefits do accrue to the better off as well” (Mirrlees 2004).

Summarizing his view on taxation, Mirrlees said:

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So I think that's what it's about. It's about ensuring that the things that are needed for everybody, certain basic things which cannot be conveniently left to people to buy for themselves, should be available for everyone, but they are mainly going to have to be paid for by the better off. (Mirrlees 2004)

Mirrlees recognized the limits of taxation, but redistribution continued to be a goal. He has spoken positively about Britain's experience in the 1950s: "first inequality was reduced, as they had a tax system since 1945 that paid for the Welfare State. This was clearly very effective" (Mirrlees 2011). He continues:

There was a considerable improvement, but then there was a period when inequality increased again, essentially under Mrs. Thatcher's Conservative government. But then when the Labour government came in, they introduced another redistributive element to the tax system called tax credits, which are paid subsidies to people depending on their income. This applied to a lot of people and inequality fell. So these systems really do work. It would be very surprising if they didn't. Studies throughout Europe have shown that countries with higher tax rates have lower inequality. (Mirrlees 2011)

Mirrlees always maintained his first economic interest was to improve the welfare of the developing world. Of his interest in studying development, he said: "I don't think that was so much about narrowing the gap as about increasing their incomes, which means economic growth, which is really my prime interest" (Mirrlees 2004).

When Mirrlees was completing his thesis, he went to India on a trip arranged for him by Amartya Sen (Mirrlees 1997a). Mirrlees spoke about that visit in a recent interview:

[Mirrlees:] In that time I pretty much decided that taking a very command-planning view was quite the wrong way to be running an economy.

[interviewer:] Was this in reaction...this was the time that the Indian government were doing five-year plans and so on.

[Mirrlees:] Yes, that's right.

[interviewer:] So in reaction to that, you were...

[Mirrlees:] Reaction to the bad results of them trying to do it. There are quite a number of examples, which...economists have already drawn attention to. Taking quite the wrong decisions.

[interviewer:] What date was this?

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[Mirrlees:] I was there '62 to '63.

[interviewer:] ... Were you aware at all of the disasters of planning in China?

[Mirrlees:] No. No, on the contrary. I think perhaps I probably heard Joan Robinson talk about China too much, and she believed that it was going great—that it was more or less the perfect economy. ... During that time I was in India she passed through. ... I remember us going around some fields and a village in India, and she was talking about how *very well organized* the Chinese were, *very efficient*, and when you told them to do something they did it, as compared to these Indians, who were feckless...going nowhere. Fair enough about India—a lot of fecklessness. But in India I certainly experienced the business of being taken to some villages which were showpieces. However, it being India, the next day I'd be taken to a village that was the complete opposite. There's a wonderful honesty about India, which shows up in things like their poverty data. (Mirrlees 2009, 50:55–53:45)

In *Project Appraisal and Planning for Developing Countries* (1974), Mirrlees and Ian Little spoke about profits, prices, and government action:

It is a tenet of laissez-faire capitalism that profits measure the gain which society derives from a project. The acceptance of this view seems to permit capitalists to claim the moral plaudits of society as they line their pockets. Yet it cannot be dismissed as intolerable hypocrisy, for the theory that profits measure social (and not merely private) gains has no necessary connection with capitalism at all. Indeed, many would think the theory more valid for a socialist society; and it is generally recognized that profits have an important, even essential, role to play in a socialist society. (Little and Mirrlees 1974, 18)

We saw...that there is, in fact, reason to believe that prices are very distorted in many developing countries. Some of the worst distortions have arisen as a result of government policies and bad investment planning. It is ironical that, in the past, planning was advocated for developing countries largely because the prices thrown up by a laissez-faire system could not be trusted to reflect national costs and benefits; but it has been used in such a way as to make the distortions worse. (ibid., 67)

A government is no exception to the rule that every agent of rational intent must plan his expenditure. This is not to say that investment expenditure, with which we are primarily concerned, need be centrally planned. A lot can be delegated to departments, municipalities, and public companies. But large projects must be centrally scrutinized, decided upon, and fitted into an investment programme, if government planning is to have any meaning. (ibid., 83-84)

In 2010, Mirrlees led a study on tax reform that concluded the British tax system was in need of “radical changes.” A press release issued by the study’s sponsor concluded:

The review shows that the UK system falls short of the ideal in costly and inequitable ways. It discourages saving and investment, and distorts the form they take. It favours corporate debt over equity finance. It fails to deal effectively with either greenhouse gas emissions or road congestion. The revenue it raises, and the redistribution it does, could be achieved in less costly ways. (Institute for Fiscal Studies 2010)

Mirrlees said that he and his collaborators “propose both a long-term vision of a better system, and directions for reform. Some of the recommended reforms involve tweaks to current policy; others involve radical change, and are probably for the longer term. It is undeniable that some of the proposed changes would be politically difficult. But failure to reform imposes enduring costs” (quoted in Institute for Fiscal Studies 2010).

Professor Mirrlees kindly responded to our questionnaire:

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.

My parents were Scottish presbyterian, and politically conservative. At 18 I was a Christian, already somewhat egalitarian and, as far as I remember, beginning to understand and agree with utilitarianism.

2. How about at age 25 or so? Had they changed at all by then?

At 25, I was still a (protestant) Christian; philosophically utilitarian, or, I would rather call it, welfarean, in the sense that utility is to be a measure of welfare, not necessarily preference revealed by behaviour; politically a social democrat, a labour voter. At that time, I thought that planning and State ownership were to be recommended.

I certainly did not think that was an ideology: it appeared to be an application of fundamental values.

3. *And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

At 35 no longer Christian, atheist rather. Not that that has much to do with values, which were much the same. Conclusions about what should be done had changed, as a result to analysing economic models, which, at that time, seemed to have shown that redistribution should be less than I had thought earlier. I had also found that detailed full economic planning was not the best way to run an economy.

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?*

Evidence is showing that taxation as progressive as in Scandinavia is pretty good—more redistribution than I thought 40 years ago. And I can see that, largely for political reasons, many of the free-market economies are doing a poor job of avoiding unemployment and low median-consumption. I favour a highly taxed, highly regulated economy, but not an autocratic State. I suppose that makes me a pretty standard-model old-fashioned liberal (in the American sense). It's implied by fundamental values and empirical observation, not, I suggest, an ideology acquired by infection from friends, gurus or preachers. Certainly my policy beliefs can still change. (Mirrlees 2013)

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Franco Modigliani

by Daniel B. Klein and Ryan Daza

Franco Modigliani (1918–2003) was awarded the Nobel Prize in 1985 for his analyses of saving and financial markets. His two most illustrious contributions are his life-cycle theory of savings (Modigliani 1949) and 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). His professional accomplishments were prodigious and are nicely treated by Richard Sutch (2008) in *The New Palgrave Dictionary of Economics*.

As for Modigliani’s ideological character, Sutch (2008) describes Modigliani as a “life-long Keynesian.” And if one were to review only Modigliani’s English-language writings, beginning with “Liquidity Preference and the Theory of Interest and Money” (1944) and proceeding to “The Keynesian Gospel According to Modigliani” (2003), including his autobiographical book (Modigliani 2001) and essays and interviews (e.g., Modigliani 1984; 1986; 1995), one indeed would see an oeuvre befitting a mainstream social-democratic Keynesian economist.

What is often missed—and, frankly, it would seem deliberately misrepresented in his own autobiographical works—is that in Italy, Modigliani, by age 20, was a well published fascist wunderkind, having received in 1936 an award for economics writing from the hand of Benito Mussolini himself. Further, in 1947, at age 29, Modigliani published a 75-page article whose title in English translation would be “The Organization and Direction of Production in a Socialist Economy” (Modigliani 1947), an article that affirms socialist economics. In 2004 and 2005 there appeared English translations of five fascist works by Modigliani originally published during 1937 and 1938 (all five translations are collected by Daniela Parisi in Modigliani 2007b). The socialist paper of 1947 has never been translated in its