EJW
ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

Robert A. Mundell [Ideological Profiles of the Economics Laureates]

Daniel B. Klein, Ryan Daza, and Hannah Mead

Econ Journal Watch 10(3), September 2013: 496-500

Abstract

Robert A. Mundell 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/752/MundellIPEL.pdf

When asked about the absence of unemployment benefits in India, Mortensen answered, "Having social nets seems to be an eventual outcome of development," adding, "In the meantime, it would appear that the way to make labor markets and everything else in India more efficient is to improve the infrastructure—communication, transportation and the institutions of exchange" (Mortensen 2010a).

References

Cowen, Tyler. 2010. Dale T. Mortensen. *Marginal Revolution*, October 11. **Link**

Mortensen, Dale T. 2010a. It's an Unfair World [interview by Sujata Srinivasan]. *Forbes India*, November 9. **Link**

Mortensen, Dale T. 2010b. Reviving America's Animal Spirits [interview by Jonathan R. Laing]. *Barron's*, December 24. **Link**

Mortensen, Dale T. 2011. Autobiography. In *Les Prix Nobel: The Nobel Prizes 2010*, ed. Karl Grandin. Stockholm: Nobel Foundation. **Link**

Mortensen, Dale T., and Christopher A. Pissarides. 1994. Job Creation and Job Destruction in the Theory of Unemployment. *Review of Economic Studies* 61: 397-415.

Neumann, John von, and Oskar Morgenstern. 1944. *Theory of Games and Economic Behavior*. Princeton, N.J.: Princeton University Press.

Tremmel, Pat Vaughan. 2010. Dale Mortensen Wins Nobel Prize. *Northwestern University News*, October 11. **Link**

Robert A. Mundell

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Robert Mundell (1932–) attended the University of British Columbia and the University of Washington for his undergraduate studies. Mundell remembers: "During World War II, my father, who was in the army, kept maps of the war theaters on our kitchen wall, and I kept up that interest in high school. I remember particularly being appalled by the Soviet occupation of Eastern Europe. It seemed to me as I entered college that the major problems in the world concerned international relations—especially with the Soviet Union—and living standards. So I studied Russian and Slavonic Studies at UBC, along with economics, which gradually evolved into a deeper passion" (Mundell 2006, 89-90). While a student at

UBC, Mundell was in the Canadian Officers' Training Corps when the Korean War broke out, though he was never deployed.

Mundell's education continued at the London School of Economics, then he earned his Ph.D. from MIT. He taught at Stanford, Johns Hopkins, and the University of Chicago before settling at Columbia in 1974. Mundell's work focused on international trade, and he earned the Nobel Prize in 1999 "for his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas."

In 1961, Mundell joined the staff of the International Monetary Fund Special Studies Division. At this time, the Kennedy Administration's Council of Economic Advisors advocated, through Paul Samuelson and James Tobin, a neo-classical mix of "easy money to lower long term interest rates and run a budget surplus (if necessary through higher taxation)" (Mundell 1985, 14). Mundell says:

> My research had shown that the neo-classical synthesis of easy money and a budget surplus would worsen the balance of payments and increase unemployment. This novel result naturally led me to the conclusion that the correct policy mix for the Kennedy administration was just the opposite of the one being followed and the policy recommended by the I.M.F. What was needed was tight money and a tax cut. … My paper recommending the alternative was circulated throughout the I.M.F. and the government[s] of all its member countries in Autumn 1961…during the Kennedy stock market slide. But the U.S. persevered with their destabilizing policy mix for another half year. Finally, in December 1962, in a speech at Yale, President Kennedy shifted to my policy mix. The course was set for the tax reductions scheduled for 1963. Unfortunately, Kennedy did not live to see the great success of his new economic policy, which Congress passed only in 1964, an election year. (Mundell 1985, 14-15)

In 1968, Mundell said: "The Great Depression affected the government institutions of the major countries and brought to the forefront the responsibility of the government for preserving the stability of the economy. Today every government regards itself as responsible for the prevention of severe depressions and the control of inflation. Government has to formulate economic policy to prevent or ameliorate the ups and downs of economic activity and prices. … The problem of government policy, therefore, is to manage aggregate demand and supply so as to eliminate excess supply during a depression and excess demand during inflation" (Mundell 1968b, 101-102). He continued: "Once an economy is on an even path of growth, with the money supply expanding at a suitable

jump to navigation table

rate…and productive factors more or less fully employed, it is necessary that the government manage its affairs in such a way that stability is maintained" (ibid., 103).

Mundell viewed complete non-intervention as unrealistic:

> For any given state of economic organization the existence of spillover (neighborhood) effects, or *externalities*, would mean that society would not achieve, in the absence of government intervention, a maximum product or a social optimum. (This does not mean that government intervention would lead us to a social optimum; utopias are not for this world.) Those industries that yielded external diseconomies, that is, those industries producing harmful by-products causing damage or creating costs for others, would tend to produce too much for the good of society. … For these reasons there is an argument for interfering with free competition by taxing industries that produce harmful side effects and subsidizing industries that produce beneficial side effects. (Mundell 1968b, 182)

Mundell, however, advocates decentralized intervention:

> The range of externalities is so widespread throughout society that it might be thought that the case for intervention in nearly every sphere of human activity is a compelling one. Indeed this is the argument usually raised by socialists. … We could first of all look at the tangible costs of government and the increasing cost of big government. More elaborate hierarchical tiers imply a loss of control; bureaucracy sets in, and big government can accomplish only rather inefficiently many things that can be done efficiently by the local community or the individual. It is hard indeed for a government in Washington to make efficient decisions about local roads in the townships of Illinois or the wilds of the Dakotas because of unfamiliarity with the needs of the local community; it is difficult for the planner in Delhi to decide how many nuts and bolts should be allotted to a factory in Madras. It is on this account far better for the local inhabitants (or entrepreneurs) to make the decisions on the spot and even pay for the roads through local taxes (or for the nuts and bolts out of company funds), since the community residents (or the individual firm) will capture the major benefits of local projects. (Mundell 1968b, 191-192)

Mundell also cautioned against the centralized welfare state:

jump to navigation table

> Social welfare benefits constitute another case where decisions at the federal level are by themselves unlikely to be efficient. Nationally administered welfare schemes typically set national standards fixed in terms of money. … The best that can be done, therefore, is to establish *minimum* national standards (if they are necessary) and exploit the advantages of decentralized decision making for supplementary requirements, to take advantage of tailoring particular situations requiring specialized community knowledge to the specific needs of inhabitants. (Mundell 1968b, 192)

He concludes on freedom: "To some people freedom is a divine dispensation, a natural birthright of man, like a soul, a gift from God, the symbol of man's separation from other species. Whatever the validity of that concept of the origin of freedom, there is no way of proving or disproving it. It is an approach to life, perhaps worthy of respect, but it is not a scientific answer. It is no help to us in answering questions about the proper jurisdiction of government activity" (Mundell 1968b, 195).

Mundell advocated putting "monetary policy out of reach of politicians" (Palast 2012). Mundell also supports policies of monetary stability (Mundell 1997). The consequences of monetary policy go far beyond economic growth, Mundell says:

> Had the price of gold been raised in the late 1920's, or, alternatively, had the major central banks pursued policies of price stability instead of adhering to the gold standard, there would have been no Great Depression, no Nazi revolution and no World War II. (Mundell 1999)

He has criticized the Federal Reserve's action in the Great Depression:

> What verdict can be passed on this third of the century? One is that the Federal Reserve System was fatally guilt of inconsistency at critical times. It held onto the gold standard between 1914 and 1921 when gold had become unstable. It shifted over to a policy of price stability in the 1920's that was successful. But it shifted back to the gold standard at the worst time imaginable, when gold had again become unstable. The unfortunate fact was that the least experienced of the important central banks—the new boy on the block—had the awesome power to make or break the system by itself. (Mundell 1999, 330)

jump to navigation table

Mundell has long supported an international currency. In 1968, he wrote that the most practial alternative to the dollar standard was international currency (Mundell 1968a, 1134).

In 1977, Mundell declared a set of goals for the "new international monetary system" to stabilize violent economic swings: "The goals of the new system should be full employment, price stability, moderate growth, freedom of international commerce and lending, and wiser global conservation policies, as mineral scarcities and prices increase secularly. Furthermore, in each country there should be a rational balance between available resources and total spending, subject to cushioning by reserve use for smoothing, and some reliance on short-term lending in the system" (Mundell 1977, 242-243).

Mundell has signed petitions warning about the future of Social Security, opposing John Kerry for president, and supporting John McCain and Mitt Romney (Hedengren et al. 2010).

References

Hedengren, David, Daniel B. Klein, and Carrie Milton. 2010. Economist Petitions: Ideology Revealed. *Econ Journal Watch* 7(3): 288-319. **Link**

Mundell, Robert A. 1968a. The Collapse of the Gold Exchange Standard. *American Journal of Agricultural Economics* 50(5): 1123-1134.

Mundell, Robert A. 1968b. *Man and Economics*. New York: McGraw-Hill.

Mundell, Robert A. 1977. Concluding Remarks. In *The New International Monetary System*, eds. Robert A. Mundell and Jacques J. Polak. New York: Columbia University Press.

Mundell, Robert A. 1985. *Macropolicies in the World Economy and the New Capitalist Revolution*. Taipei: Institute of Economics, Academia Sinica.

Mundell, Robert A. 1997. The International Monetary System in the 21st Century: Could Gold Make a Comeback? Lecture at St. Vincent College (Latrobe, Pa.), March 12. **Link**

Mundell, Robert A. 1999. A Reconsideration of the Twentieth Century. *American Economic Review* 90(3): 327-340.

Mundell, Robert A. 2006. Interview by Howard R. Vane and Chris Mulhearn. *Journal of Economic Perspectives* 20(2): 89-110.

Palast, Greg. 2012. Robert Mundell, Evil Genius of the Euro. *The Guardian*, June 26. **Link**

jump to navigation table