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Douglass C. North [Ideological Profiles of the Economics Laureates]

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Abstract

Douglass C. North 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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Zuckerman, Julia. 2005. Nobel Winner Critiques Economic Theory. *Brown Daily Herald*, April 27. [Link](#)

Douglass C. North

by Daniel B. Klein and Ryan Daza

Douglass C. North (1920–) was born in Cambridge, Massachusetts. His father, a WWI veteran, was a manager at an insurance company. The nature of his father’s job made moving around necessary. As a result, North went to schools in Canada, Switzerland, Connecticut, and New York City during the Depression (North 1994). North reflected on his early life:

Our family life was certainly not intellectual. My father had not even completed high school when he started as an office boy working for the Metropolitan Life Insurance Company, and I am not sure that my mother completed high school. Nonetheless, she was an exciting person, intelligent, intellectually curious, and she played an important part in my intellectual development. (North 1994)

North says of his college experience at the University of California at Berkeley: “While I was there my life was completely changed by my becoming a Marxist” (North 1995, 252). He continues: “Marxism was attractive because it appeared to provide answers to the pressing questions of the time, including the Great Depression that we were in—answers missing from the pre-Keynesian economics that I was taught in 1939–1940” (ibid.). In an interview conducted by Karen Horn, North remarks: “I drifted into being a Marxist. Not a Communist, a Marxist. That’s a big difference” (North 2009, 160). North continues: “I read lots of Marx. That was a big influence on my life, and it still is. I’m not a Marxist any more, but still, he had an enormous impact. Anyway, I went through school and thus became a leader in left-wing activities. Then, World War II came along” (ibid.).

In 1942, upon graduating and because of his “strong feeling that I did not want to kill anybody” (North 1994), North joined the Merchant Marine, serving as a navigator. He reflected: “What the war did was give me the opportunity of three years of continuous reading, and it was in the course of reading that I became convinced that I should become an economist” (ibid.).

After the war, North returned to Berkeley to pursue a Ph.D. in economics. About those years, North remarks:

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The Keynesian revolution came on when I was a graduate student. After the war, Keynes was the big thing. I went through all that, I learnt Keynes. That was useful. Remember, I was a semi-Marxist. So I sort of liked Keynes, because that was at least a step in the right direction. (North 2009, 168)

North wrote his dissertation on the industry that his father had a career in: “[M]y Ph.D. dissertation was a muckraking attack on life insurance companies, something that my father wasn’t enthusiastic about, to put it mildly” (North 2009, 162).

In 1950, North, age 30, took a position at the University of Washington in Seattle. Arriving the same year was Donald F. Gordon. North has repeatedly credited Gordon for teaching him economics and influencing his outlook (e.g., North 1995). In the interview with Horn, North said:

[Gordon] was a good economist, and we played chess every day from 12 to 2 p.m. I beat him at chess all the time, and he taught me economics. I knew so little economics that, when I graduated, I had just memorized all the right answers for the exams and reproduced them. I didn’t know any economics, not even simple price theory. ... He had a very powerful influence on my life, because he really taught me economics. And that also was the last step in my getting rid of Marxism. As I re-learned theory, I became a very rigid neoclassical, Chicago type economist. Typically, there is nothing worse than when you have lost your way and you pick up the next thing. In my case, this made me a right-wing reactionary. (North 2009, 164)

North continued at UW in Seattle from 1950 to 1983, and then, from 1983, was professor at Washington University in St. Louis, where he is now emeritus. He was editor of the *Journal of Economic History* for five years and president of the Economic History Association in 1972. His most important works include *The Economic Growth of the United States 1790 to 1860* (1961), *The Rise of the Western World: A New Economic History* (1973, with Robert P. Thomas), *Structure and Change in Economic History* (1981), *Institutions, Institutional Change, and Economic Performance* (1990), *Understanding the Process of Economic Change* (2005), and *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (2009, with John J. Wallis and Barry Weingast).

North was one of two economic historians awarded the Nobel Prize in 1993, the other being Robert Fogel, “for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic

and institutional change.” The Nobel Prize website ([link](#)) says that North “[s]hed new light on the economic development in Europe and the United States before and in connection with the industrial revolution. He emphasized the role of property rights and institutions.”

Ideologically, North started on the radical left and moved particularly during his late twenties or thirties; Fogel, coincidentally, was similar. Fogel has moved roughly to the American Democratic center, and North has perhaps moved further. North’s greater classical liberalism may be reflected in his high praise for F. A. Hayek and Ronald Coase, his status as Senior Fellow of the Hoover Institution at Stanford University, his participation in activities with the Cato Institute (e.g., North 1992), and his co-authorship of *The Economics of Public Issues* (1st ed., Miller and North 1971; 18th ed., Miller, Benjamin, and North 2013), a text that pours cold unintended-consequences water on numerous, often-hallowed government interventions. North’s scholarship has a drift that is quite classical liberal, emphasizing, among other things, the importance of property rights and the dangers and pathologies of government power.

North has perhaps never sounded more like a Milton Friedman libertarian than in “Private Property and the American Way,” published by *National Review* as a “July Fourth Essay” in 1983. The piece provides both a sweeping narrative of the United States and a primer on the self-correcting virtues of voluntary processes, notably free-market forces, as compared to politics and governmentalized social structures. North wrote:

In very general terms, the benefits of using the political process to modify property rights have risen enormously as the government has come to occupy a key role in the whole economic process. Not only does government account for more than a quarter of gross national product, but government rules and regulations—federal, state, and local—are ubiquitous in modifying property rights. And as the benefits have risen, the costs of using the political system have declined. The regulatory commission and the government agency are key decision-makers now. It is no longer necessary to incur the prohibitive costs of influencing a majority of both legislative bodies as well as the executive in order to change property rights and redistribute wealth and income.

To be more specific, the benefits have risen because the income of individuals, the profits of firms, the wages and benefits of trade unions, the prices of agricultural goods, etc., are being decided daily within the governmental process. This is so because 1) government taxes take a major portion of society’s income and wealth; 2) government is a major purchaser of goods and services; 3) transfer payments

that shift income from one individual to another amounted, for example, to more than \$86 billion in 1972–73; and 4) finally, changing taxes, rules, and regulations alter property rights that affect the income and wealth of every individual and group in the society. In this situation, access to governmental decision-making is essential.

The costs have fallen because the system of checks and balances has been replaced in many areas by government agencies and regulatory commissions. The cumbersome decision-making process envisioned by Madison has now been replaced by an individual or a commission.

Moreover, the rise in benefits and the fall in costs are not uniform throughout the system. The political structure favors large economic units (giant firms, trade unions, farm organizations) over small; dedicated single-purpose groups (passionate minorities) over more diffuse interests; and producers over consumers, to name but a few of the favored and disfavored groups.

[... T]he consequences of this shifting emphasis of decision-making from the market to government can be...briefly summarized. The most distinctive feature is the effort of all comers to attempt to get income and wealth at the expense of someone else. The farmers are subsidized by a price-support program and by various soil conservation programs, which go not only to the farmer but to the wealthy who buy farms as tax shelters. Middle-income groups are subsidized...with...higher education and lower tax rates. The rich man had until recently his oil depletion allowance and still has his tax-exempt securities, and the poor receive that massive transfer of payments through old-age survivors insurance, food stamps, Medicare, Medicaid, and subsidized housing. Even a casual appraisal of the legislation passed at any level will reveal that the predominant trait of a good deal of it is redistribution of wealth and income. It may have other objectives as well, or the other objectives may simply be a disguise for efforts to get a slice of the pie at the expense of someone else. ...

I see no evidence that assures me that either equity or efficiency will be a victor in this evolving structure of public property rights. When we look analytically at the distribution of personal income in the United States today, we find a rather surprising result in the face of what we have described above. We find that while the distribution of income has been altered somewhat in the past forty years, the alteration is quite modest when compared to the efforts that have

been directed. The top 20 per cent of income receivers have lost some percentage of income and the bottom 20 per cent of income receivers have gained, primarily as a result of in-kind transfers. Middle-income groups have gained modestly. This modest result is not hard to explain. The real reason is simply that cross-hauling has been occurring at a great rate. If the rich are being subsidized in one direction, they are subsidizing other groups in still another direction. And so it goes with every income class.

Does this mean that the consequences of the massive effort at redistribution have little or no effect on the economy? Not at all, just the reverse. The net effect may have been much smaller than one might first imagine, but the dead-weight effect on the economy is something else again. More and more of the resources of the society are being tied up either in devoting time and effort to redistributing wealth and income in one's favor or in defensive measures by groups to prevent wealth and income from being redistributed away from them. As an ever-growing proportion of the resources of the society are devoted to these ends, they are withdrawn from productive effort. . . .

[T]here is no logical reason to expect the political system to produce a set of property rights that will resolve the basic dilemmas of our society. We are accustomed to thinking of the Declaration of Independence and the Constitution as simply a product of our Founding Fathers' supreme wisdom. In retrospect, the four million people in our society at the end of the eighteenth century appeared to have a relative super-abundance of wise and thoughtful people. But that is hindsight. At least, in part, it had to be accidental good fortune that provided the juxtaposition of the philosophical insights and the economic interests of those groups that came to power in the English Revolution of the seventeenth century and carried through the period of the formation of the United States in the eighteenth century. The implicit assumption of our current economic policymakers—that wisdom will prevail over narrower self interest of the groups competing in the political arena—is a declaration of faith. But the current restructuring of property rights via the political process provides no such comfortable assurance. (North 1983, 807-809)

North speaks of liberty as follows:

What are the implications of the foregoing analysis for individual liberty? From my perspective, individual liberty is inextricably en-

twined with the options—the alternatives—available to individuals in a society. By this definition individual liberty has been seriously eroded. The choices of occupations, the decision to hire, fire, or promote employees, the exploitation of natural resources, the establishment of new enterprises, the determination of quality standards for products, the disposition of one's earnings all are increasingly more circumscribed than in the past. Yet clearly, this is an incomplete specification of the issue. What have we obtained in return—greater economic security for individuals, a more desirable distribution of income, the reduction of environmental deterioration? Aside from the difficulty of agreeing about what is a desirable distribution of income, the assessment of these benefits (particularly as compared to hypothetical alternatives) would differ widely. I am somewhat skeptical about our successes in these directions. Yet obviously, we have experienced some degree of success. But the cost in terms of my definition of individual liberty has been substantial.

I would like to conclude on an even more sober note. Individual liberty is clearly a “good” in itself. But it is also an essential means to a desirable end. In a world of uncertainty, no one knows the correct path to follow, whether it is in the pursuit of economic well-being or other desirable objectives. But diversity—decentralized decision-making—assures the society that many alternative paths will be pursued and therefore raises the odds that success will be achieved. The varieties of creative talent and ideas that the individuals in a society possess must have ready and easy access to expression. Competition and decentralized decision-making contribute as much to that process as does equality of opportunity. Centralized decision-making, large-scale bureaucracy and monopolistic privilege operate in the reverse direction. The latter appears to me to be the path we are following. We are reducing our options with consequences that have foreboding implications for our long-run survival. (North 1983, 812)

Meanwhile, as for petition signing, North endorsed John Kerry for president in 2004 and opposed the George W. Bush tax cuts (Hedengren et al. 2010).

Horn asked North about his interaction and regard for Hayek, and he responded in rather superlative terms:

When I was at University of Washington in Seattle, I was very flattered when I once got a note from Hayek saying that he would like to come and talk with me. He had read *The Rise of the Western World* [North and

Thomas 1973], and he thought it was a very interesting book. He came to Seattle and spent two days with me. We had a good time and I really enjoyed him. But I wish I had known then what I have learned since, so that I could have appreciated his visit more appropriately. I had never read his stuff on cognitive science in those days. He still seems to me the greatest economist of the twentieth century, and by a long way. If you look for people who really want to try and understand the world, Hayek came closer to that ideal than anybody who has ever lived. (North 2009, 168)

North joined with Coase and Oliver Williamson in creating the International Society for the New Institutional Economics in 1997. North has said: “At that moment, Ronald Coase had a big influence on me” (North 2009, 169).

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Bertil Ohlin

by Niclas Berggren

Bertil Ohlin (1899–1979), professor of economics and Nobel laureate in 1977, developed a social consciousness early on, both because of his mother’s involvement in assisting the poor and because of his going to school with less well-to-do children.

In the 1920s—also Ohlin’s twenties—he argued that the best method for helping the less fortunate was to increase economic growth: only by creating and sustaining conditions for higher production levels could living standards rise over the long term. He does not seem to have been very influenced by some radical contacts made in his early years (such as the British Fabians), although such influences were to matter later. Thus, he initiated his academic career in ideological agreement, at least on most issues of economic policy, with the leading Swedish economists of the day, Gustav Cassell and Eli Hecksher, who were devoted classical liberals. Heckscher helped Ohlin secure his first professorship at the University of Copenhagen when Ohlin was only 25 years old. Heckscher was also instrumental in Ohlin’s subsequent transfer, in 1929, to the Stockholm School of Economics (Heckscher’s own institution), where Ohlin was to remain.

An important reason for the attractiveness of classical liberalism among Swedish economists in the middle and end of the 1920s was the fact that a most severe economic crisis was gradually overcome by means of market-oriented measures. Between 1923 and 1929 the Swedish economy developed very well: prices were stabilized, unemployment fell, and GDP growth turned positive again. This was pointed out by Ohlin in a speech to the Copenhagen Student Association on February 14, 1926, where he voiced skepticism about government intervention and regulation (Larsson 1998, 42). In an interview in the newspaper *Ekstrabladet* on December 27, 1926, Ohlin asserted that market adjustments were instrumental for reducing unemployment (*ibid.*, 87). The task of government is primarily to facilitate