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Edward C. Prescott [Ideological Profiles of the Economics Laureates]

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Abstract

Edward C. Prescott 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/761/PrescottIPEL.pdf

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Edward C. Prescott

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

Edward Prescott (1940–) was born in upstate New York to German immigrant parents. His mathematical inclinations and lessons in business from his father prepared him to be an economist (Prescott 2005). Ideologically, Prescott says that in high school he was a Fabian socialist but in college changed his views. He now tends toward support of "individual responsibility and decentralized arrangements" as opposed to "paternalistic statism" (Prescott 2013).

Prescott began his college education at Swarthmore College with dreams of being a rocket scientist: "It was the Sputnik era... This dream led me to major in physics for my first three years" (Prescott 2009, 370). Prescott wrote of his college experience in his Nobel autobiography: "What disappointed me about Swarthmore was the dearth of intellectual discourse. Fellow students spent much of their time memorizing, rather than thinking and figuring things out. Nearly all were too ideological to carry on an intellectual discussion. I could always predict what they would say. How anyone could defend the killing of tens of millions by Stalin and

Mao was (and is) beyond me. This experience cured me of my socialistic leanings” (Prescott 2005).

Prescott eventually turned to mathematics because he was not fond of the all-day honors laboratories in chemistry and magnetism. A mathematical course in engineering introduced Prescott to the new field of operations research. He decided to go to Case Institute of Technology for graduate studies where he “learned a set of tools that proved invaluable in helping to make macroeconomics part of economics.” With his new fondness for engineering, Prescott decided to get his Ph.D. at the Graduate School of Industrial Administration at Carnegie Institute of Technology, a multidisciplinary program, which introduced him to economics (Prescott 2009, 370-371).

Prescott taught at the University of Pennsylvania, Carnegie Mellon University, and the University of Minnesota before settling at Arizona State University.

Prescott shared the 2004 Nobel Prize in economics with his collaborator Finn Kydland “for their contributions to dynamic macroeconomics: the time consistency of economic policy and the driving forces behind business cycles.” Their analysis suggested a need for pre-commitment devices in policy decisions (Kydland and Prescott 1977).

In the 1960s Prescott believed Keynesian economics “was a great theory that could be used to eliminate costly economic fluctuations” until “Bob Lucas established that was impossible.” Prescott claimed that Robert Lucas Jr. heavily influenced his thinking, so much so that when he taught at Carnegie Mellon in 1971, he decided not to teach macroeconomics until he “understood what it was and how to teach it.” He did not teach macroeconomics until he moved to the University of Minnesota in 1981 (Prescott 1996).

Regarding the Federal Reserve System, Prescott has written: “An independent Fed, I think, is something that is a valuable commitment technology for Congress, for the same reason an independent judiciary is a good arrangement” (Prescott 1996).

In a book chapter titled “The Great Recession and Delayed Economic Recovery: A Labor Productivity Puzzle?”, Prescott and Ellen McGrattan built a model of macroeconomic fluctuations, then provided “empirical evidence for negative shocks to TFP [total factor productivity], which are the main sources of decline in predicted real activity” in their model. “The evidence we consider are costs paid by businesses to comply with federal regulations and expenditures and employment of federal regulatory agencies. We interpret the increase in regulatory costs as a decrease in TFP. The evidence shows that these costs have risen dramatically in recent years” (McGrattan and Prescott 2012, 118-119).

Prescott describes a methodology he developed with Finn Kydland as having “made dynamic aggregate economics a hard quantitative science” (Prescott 2013). He says, by contrast, that “Political views still are a matter of what I call religion and not science. Religion in the sense I am using the word is crucial to getting around the time inconsistency problem. Without it there would not be society” (ibid.).

Prescott has signed five petitions that are judged to be “liberty-augmenting” by David Hedengren and coauthors (2010), and no “liberty-reducing” petitions. Prescott spoke out in opposition to the Obama stimulus (Gabrielson 2009), and he endorsed Mitt Romney for President in 2012.

Professor Prescott 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.

In high school I was a Fabian socialist.

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

Yes they changed in college. Incidentally, at 25, I still used the macro paradigm underlying the macro-econometric models that came to predominance in the 1950s and 1960s and failed so spectacularly, as predicted by dynamic economic theory, subsequently.

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

By 35 the advances in tools made it possible to use economic theory to model dynamic economic phenomena.

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?

In the late 1970s, Kydland and I developed the methodology that made dynamic aggregate economics a hard quantitative science. So much has been learned by so many using this methodology. Economic theory predicts and predicts well what will happen condition on future policy rules.

I believe a better system is one with individual responsibility and decentralized arrangements than paternalistic statism. Political views still are a matter of what I call religion and not science.

Religion in the sense I am using the word is crucial to getting around the time inconsistency problem. Without it there would not be society.

5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or

character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?

No. (Prescott 2013)

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Alvin E. Roth

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

Alvin Roth (1951–) was born and raised in New York City. During his experience in New York schools, Roth was under-challenged and dropped out as a high school junior. After taking a few engineering classes at Columbia University, Roth applied and became a full-time engineering student (Adams 2010). He went on to Stanford University for his Ph.D. in operations research.

Led to engineering, and specifically operations research, “with the idea of fixing things up so they work better,” Roth moved into game theory, and from