William F. Sharpe [Ideological Profiles of the Economics Laureates]
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Abstract
William F. Sharpe 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/771/SharpeIPEL.pdf
Now what is good about this algorithm? First, Gale and Shapley proved that the algorithm converges to a solution for a very wide range of preferences. Second, the algorithm is stable in the sense that there is no man and no woman who would rather be matched to each other than to their current match. (Tabarrok 2012)

Shapley is also well-known for the “Shapley value,” which defines the social benefits of cooperation over competition. Another innovation, the Shapley-Subik power index, can be used to reveal which decisionmakers in a political body are the most important, often with surprising results (Matthews 2012).

Shapley does not appear to have been open about his political views. Disclosure records show that Shapley’s few political donations went to Democratic Party candidates and organizations (Kiely 2012).

References


Matthews, Dylan. 2012. Getting to Know Al Roth and Lloyd Shapley, This Year’s Nobel Laureates in Economics. Wonkblog, Washington Post, October 15. Link


William F. Sharpe

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

Massachusetts-born William Sharpe (1934–) spent most of his formative years in California and has remained a West Coaster ever since. He earned his bachelor’s and master’s from UCLA, and after serving in the U.S. Army, returned
to UCLA for his Ph.D. During part of that time, he also worked at the RAND Corporation (Sharpe 1991).

In remarking on working at RAND, which was “[f]unded almost entirely by the Air Force,” Sharpe identifies his own political outlook:

Now, of course, the idea of working in a classified facility for the military establishment would prove an anathema for liberals (in the American political sense of the term), such as myself and most of the others at Rand. But those were simpler times. We truly believed that by improving the efficiency of the defense establishment we could help prevent war. There seemed to be no ambiguity and no moral dilemma. (Sharpe 2009, 179)

Professor Sharpe’s response to our questionnaire, appended to this profile, confirms that his ideological outlook has not changed significantly during his adult life (Sharpe 2013).

While at UCLA and RAND, Sharpe began working with Harry Markowitz, who would be an important influence on Sharpe. Sharpe worked on his dissertation, on transfer pricing, under Jack Hirshleifer, Armen Alchian, and Markowitz (Sharpe 2004). Sharpe, Markowitz, and Merton Miller were co-winners of the 1990 Nobel Prize in Economics “for their pioneering work in the theory of financial economics.”

Sharpe is most known for his development of the Capital Asset Pricing Model. When asked to summarize his work, he responded:

I wanted to answer why people act in certain ways when they invest and how risk and return are related. The bottom line: Yes, Virginia, some investments do have higher expected returns than others. Which ones? Well, by and large they’re the ones that will do the worst in bad times. (Sharpe 2007)

After earning his Ph.D., Sharpe taught at the University of Washington, then at the University of California at Irvine, before settling in at Stanford in 1971. In 1986, Sharpe founded a financial consulting firm.

Because of his work on portfolio theory, Sharpe has commented on government pension plans. Regarding CalPERS, the “substantially underfunded” state employee pension plan in California, he wrote: “[T]he CalPERS actuaries [assumed] that their portfolio of bonds, stocks and exotica will return exactly 7.5% every single year. Moreover, they value assets at an average of past values. Magical thinking. Bad economics” (Sharpe 2012). Sharpe concluded, “So, I implore all those who help people save and invest for retirement and then use their savings
sensibly in retirement[;] Please avoid magical thinking and bad economics. Employees and retirees deserve better” (Sharpe 2012).

He has concerns about the general tendency to replace defined-benefit with defined-contribution plans, saying they create “an unprecedented need for ordinary human beings to make informed decisions about investing their retirement savings—a task for which most are currently ill-equipped” (Sharpe 1997).

Sharpe has a solution to the Social Security crunch: Raise taxes, cut benefits, or do some combination of both. “Social Security is not broken,” he says (Siegel 2008).

Sharpe signed a petition opposing the George W. Bush tax cuts and a petition endorsing John Kerry for President (Economic Policy Institute 2003; Hedengren et al. 2010). In 2011, Sharpe offered support to the “Purple Health Plan,” authored by Laurence J. Kotlikoff, a professor of economics at Boston University. The plan would replace Medicare and Medicaid, providing all Americans with vouchers for purchase of health insurance and ending tax breaks for employer-provided insurance (Kotlikoff 2011).

We are very grateful to Professor Sharpe for his generous response to our questionnaire; the response follows:

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 family was relatively apolitical. The older members on my mother’s side were rock-ribbed New England Republicans, while those on my father’s side were Republicans but relatively moderate ones by the standards of the day. I grew up in WWII, during which my father served in the army and there was relatively little division in general. I would say that both of my parents drifted toward the support of first Roosevelt, then Truman.

   When I was 18 I was relatively sympathetic with government involvement in large parts of life, and satisfied as a consumer of public education through high school, then at the University of California (Berkeley and Los Angeles).

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

   Not really. I finished my Master’s at UCLA, then served in the Army. After that I worked at the RAND Corporation. I had become a Democrat (as had my father). I continued my studies, earning a PhD in Economics while working full time at RAND as well. I managed to repeat the mantra that Economics addressed questions of efficiency, not necessarily those of equity. I learned about the efficiency associ-
ated with a market economy but still felt that government could play an important role concerning public goods, externalities and limited amounts of redistribution.

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

No major changes. I had moved to the study of Financial Economics and the efficacy of markets for allocating risk and resources over time. But I knew that often people chose to make bets without the desire to hedge against existing risks and that the financial industry often charged unnecessarily high fees for its services.

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?

Perhaps my skepticism has deepened. Like most of my colleagues I have an increased appreciation for the foibles of human decision-makers and the willingness of those in the financial industry to exploit some of them. But I still have a great respect for the ability of markets to allocate resources well if participants are reasonably well informed.

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)?

I like to think that my views are more nuanced now, as they should be. We have all learned much about the behavior of individuals, the effects of certain market forces, the foolishness of some governmental policies, and so on. But I wouldn’t say that I have moved “left” or “right.” I sometimes say that I am a knee-jerk liberal with an appreciation for the efficiencies of a market economy. Relative to the past, I hope that I am better informed and less inclined to adhere to any sort of party line.

6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.

In graduate school at UCLA I was greatly influenced by Armen Alchian, who taught me much about economics. I did not adopt some of his more deeply held views about free markets, but have always asked myself why I might disagree with some of his conclusions about
public policy, to be sure that at least I have reasoned carefully from my own premises.

7. We welcome citations to your writings that express your political views. We also welcome whatever tips you would give to someone researching your political views and their course over time.

I have tried to keep my values separate from my analyses, or at least to make them explicit where this would be important. I prefer not to express my political views in public since I find it too easy to see both sides of many issues. (Sharpe 2013)

References


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