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## **Vernon L. Smith [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

Vernon L. Smith 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

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[http://econjwatch.org/file\\_download/774/SmithIPEL.pdf](http://econjwatch.org/file_download/774/SmithIPEL.pdf)

# Vernon L. Smith

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

Vernon Smith (1927–) was born and raised in Kansas during the Great Depression. His family struggled to make ends meet on their farm, and eventually the bank foreclosed. Smith recalls that the event confirmed his “mother’s political commitment to socialism” (Smith 2003a). He stated that his mother ran for state treasurer on the Socialist Party ticket in Kansas more times than he could count (Smith 2002, 39). Smith adopted his mother’s socialist views. He recounts that in high school he was involved in socialist activism, and in college he voted for socialist candidate Norman Thomas. But, later, his economics training and research moved him far in the direction of libertarianism, as he makes clear in his kind questionnaire response, reproduced at the end of this profile (Smith 2013).

In a 2003 interview, Smith discussed this transition:

I grew up in a socialist family. My mother was a socialist and very proud that she had cast her first vote for president for Eugene Victor Debs. I held many of those views also. But gradually, as I developed a deeper understanding of economics, I began to rethink things. And the final blow came when I started doing experiments and my subjects taught me that markets work. That transition took place over a number of years and became stronger and stronger. Certainly by the time I had been at Purdue for five of six years—this would be in the early 1960s—I had changed my mind. (Smith 2003b, 32)

Although Smith had changed his perception of the nature of collectivist politics, he remained warm to his experiences as a socialist. He explained:

I doubt that I have voted for anyone since who approached Thomas’s incredible integrity and compassion for humanity. Remarkably, I still have a very warm memory of that experience, although intellectually, of course, command-and-control systems do not and cannot work, and demonstrably cannot manage the economy. They perpetuate poverty, destroy freedom, subordinate the individual to a mindless bureaucracy of doublespeak, and in their worst incarnations, brutalize their most imaginative and independent citizens, all the time claiming otherwise. An understanding of why I could feel warmly toward that first voting experience would go a long way to explaining why in the name of freedom, fairness, and justice we realize less and less of all

three; why, even when liberalization efforts break through the political process—for example, the worldwide privatization and decentralization movement of the 1980s—the pendulum also swings back and gradually undermines wealth-creating as well as poverty-reducing reforms. (Smith 2009, 348)

In 2002, along with Daniel Kahneman, Smith won the Nobel Prize in economics for using laboratory experiments in empirical economic analysis and in the study of alternative market mechanisms. In a *New Palgrave* entry, Catherine Eckel (2008) writes that Smith “has made important contributions to market and institutional design, public goods, bargaining, experimental methodology and the philosophy of science.”

While in high school, the schoolwork bored him, so his performance was mediocre. He worked at a drug store, and, after graduation from high school, at Boeing until he decided to go to college. Unable to attend the California Institute of Technology because of his poor grades, he attended a local Quaker college, Friends University. After a year of building his knowledge and track record, Smith took the Caltech entrance exam and was accepted. He majored in electrical engineering, and during his senior year took an economics course (Smith 2003a).

Intrigued by the similarity of economics to physics and engineering, Smith went to Kansas University for his master’s degree in economics. He reflected on his switch to economics:

When I was a senior at CalTech, I took an economics course and I got interested in the topic. I went to the library, and among other things, I ran across a copy of Paul Samuelson’s *Foundations of Economic Analysis*. It looked to me a lot like physics, which I was already doing. I also subscribed to the *Quarterly Journal of Economics*, and in one of the first issues there was an article by Hollis Chenery on engineering production functions—so it was engineering too! ... [T]he discipline was mathematical and had an important applied empirical dimension, which appealed to me. (Smith 2003b, 32)

Smith went to Harvard University for his Ph.D. in economics. After earning his Ph.D., Smith taught at Purdue University, Stanford University, and others, before landing at the University of Arizona, where he stayed for 26 years. He then joined the faculty of George Mason University, and in 2008 moved to Chapman University.

While at Harvard, Smith had taken E. H. Chamberlin’s class, in which Chamberlin demonstrated the lack of equilibrium tendency by having his students

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engage in a trading game. Smith thought the game could do with some improvements, and so began Smith's move into experiments (Smith 2003a). Teaching at Purdue, Smith adapted Chamberlin's demonstration. Smith recalls the results of his version of the game:

To my amazement the experimental market converged "quickly" to near the predicted equilibrium price and exchange volume, although there were "only" 22 buyers and sellers, none of whom had any information on supply and demand except their own private cost or value. (Smith 2003a)

Smith recalls the impact his work had on his viewpoint: "Experimental economics destroyed whatever was left in me of the notion that somehow you could do better than to find institutions that organized this decentralized information" (Smith and Gillespie 2011).

Not all of Smith's views changed, however: "I was...a peacenik, who had decided that support for that war was justified; but after Hiroshima and Nagasaki I reverted to my peacenik days. That sentiment is still very strong with me today" (Smith 2013).

Smith often analyzes issues through the lens of property rights and institutions (Smith and Gillespie 2011). In a 1999 paper on federal lands, Smith, Terry L. Anderson, and Emily Simmons wrote:

[T]he failure of socialism is as evident in the realm of resource economics as it is in other areas of the economy.... Both environmental quality and economic efficiency would be enhanced by private rather than public ownership. Land would be auctioned not for dollars but for public land share certificates (analogous to no par value stock certificates) distributed equally to all Americans. ... Once divested, tract deed rights would be freely transferable. (Smith et al. 1999, 1)

Regarding the 2008 financial crisis, Smith suggests that some of the problems arose from ill-defined property rights (Smith and Gillespie 2011; Smith 2010). He says, "I don't think there is anything you can do to prevent bubbles" (Smith 2010), but he described certain mortgage-repayment requirements imposed by the state government in Texas and endorsed them, saying:

[I]t's clear that this Texas law made a substantial difference there and it seems to me those are very reasonable kind of property type regulations in which you say that people don't have a right to buy

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homes without putting up some, a reasonable cash down payment and that the loan be amortized. And so that's not a heavy handed regulation. It's a very reasonable benign type of regulation: give people rights to take action that are consistent with sustainability and stability. (Smith 2010)

Smith has been very active in signing petitions, and, on policy issues, very consistently for reforms that are “liberty augmenting,” according to David Hedengren and collaborators (2010). Smith signed a petition for the “Purple Health Plan” (Kotlikoff 2011) and a petition supporting John McCain for President in 2008 (Hedengren et al. 2010). In the 2012 Presidential election, Smith voted for the Libertarian Party nominee (Smith 2013).

In a 2003 interview, Smith remarked on foreign aid: “The history of foreign aid has been disastrous in the sense that it's country-to-country transfers, and in a lot of underdeveloped countries with corrupt and dictatorial governments, it just increases their power. The way you get developed is for investors to invest in those countries and see how their money is going to be used. Public policy, I think, should be directed at removing artificial barriers to that” (Smith 2003c, 8).

Concerning the economics of health care, Smith and Douglas Holtz-Eakin write:

The presence of externalities and other market imperfections does not justify a departure from the normal rules of the constitutional road. Health care is typically consumed locally, and health-insurance markets themselves primarily operate within the states. The administration's attempt to fashion a singular, universal solution is not necessary to deal with the variegated issues arising in these markets. States have taken the lead in past reform efforts. They should be an integral part of improving the functioning of health-care and health-insurance markets. (Smith and Holtz-Eakin 2012)

They continue:

The individual mandate and Medicaid expansions appear to many to be unconstitutional. They are certainly bad economic policy. When they go, the entire law must fall. The administration built an intricate, balanced policy on a flawed economic foundation. It is up to the Supreme Court to pull it down. (Smith and Holtz-Eakin 2012)

Regarding political labels, Smith has said:

I think economists' work is still colored too much by their political preferences. You know, Hayek once wrote a paper called "Why I Am Not a Conservative." I sometimes would like to write a paper about why I'm not a conservative or a liberal or a libertarian, so that I could state what I think the problems are with all of them. (Smith 2003b, 35)

Professor Smith's generous response to our questionnaire 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 mother was a socialist and her Wichita friends were Marxian socialists; she had only an eighth grade education but that did not keep her from running for Kansas State treasurer on the Socialist ticket. In 1936 when I was nine years old I helped pass out program leaflets for Norman Thomas, candidate for President against Roosevelt. He used to complain that Roosevelt got elected by stealing his program. At 18 (1945) I would have been a member of the YPSL (Young People's Socialist league). Also a member of CORE—Congress on Racial Equality. We challenged the local theaters that required blacks (Negroes in those days—"blacks" was derogatory) to sit in the balcony. Our biggest problem was to get blacks to join us. CORE did things in defiance of the NAACP. I was also a peacenik, who had decided that support for that war was justified; but after Hiroshima and Nagasaki I reverted to my peacenik days. That sentiment is still very strong with me today.

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

At 25 I am a Harvard graduate student, and less political. (In 1948 (age 21) I voted for Norman Thomas.) I would start gradually to change because of my economic training (notwithstanding Alvin Hansen, Samuelson). I would be more influenced by Leontief and Haberler; largely because of my own choices than external sources.

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

By 35 (1962) I have been doing experiments at Purdue for six years, and the behavior of my subjects was disabusing me of any latent beliefs that decentralized market processes were not efficacious. That utterly changed everything, but led also to the discovery that there were markets that performed badly—asset markets, later well represented by housing-mortgage markets. About 75% of private product is

consumer non-durables, and these markets are essentially never a stability problem; instability comes from the other 25%, especially housing and that is a matter of too much of Other People's Money.

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?*

I find the Democrats of today pretty scary and the Republicans essentially paralyzed. I usually vote for the lesser of the two evils nationally, or, when they are indistinguishable, not at all. Last time around I voted for Gary Johnson whom I met here at Chapman.

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 have moved more and more out of that space.

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.*

Some of all of the above, but fundamentally what I learned from the behavior of subjects in experiments.

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.*

You can cite *Discovery; A Memoir*. Bloomington, Ind.: Author-house, 2008. (Smith 2013)

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## Robert M. Solow

by Daniel B. Klein and Ryan Daza

Robert Solow (1924–) was born and raised in Brooklyn. Solow, who grew up in the 1930s, has written that “all my mother and father talked about together was where the next dollar would come from” (Solow 2009a, 115). Solow’s parents were New Deal Democrats (Solow 2013c), as is, it has been said, Solow himself (Samuelson 1989, 95). He considers himself a liberal Democrat today, saying in his response to our questionnaire that his outlook has been quite constant since the age of 25 (Solow 2013c).