ECON JOURNAL WATCH
Scholarly Comments on Academic Economics

A. Michael Spence [Ideological Profiles of the Economics Laureates]

Daniel B. Klein, Ryan Daza, and Hannah Mead

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Abstract

A. Michael Spence 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/776/SpenceIPEL.pdf

A. Michael Spence

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

Raised in Canada, Michael Spence (1943–) went to Princeton University for his undergraduate education. He earned his master's degree from Oxford University and his Ph.D. from Harvard. At Harvard, he studied under Kenneth Arrow and Thomas Schelling, among others (Spence 2002). Politically, Spence describes himself as "a centrist democrat" (Spence 2013b).

Spence has taught at Harvard and Stanford, and he is now professor at New York University. A short biography on the NYU website (**link**) says that his work "focuses on economic policy in emerging markets, the economics of information, and the impact of leadership on economic growth." In 2001, he was awarded the Nobel Prize in economics along with George Akerlof and Joseph Stiglitz for their work on asymmetric information. Spence developed a theory of signaling; for example, individuals may attain educational distinctions to signal their productivity.

His policy advice is rarely pointed; it has sometimes suggested greater government intervention. When speaking of how developing countries should emulate advanced economies after the 2008 recession, Spence stated:

> Now, in the aftermath of a crisis that began with extreme distress in the advanced countries' financial markets, the structure and regulation of the advanced-country systems are in the process of significant and permanent change in terms of regulatory structure and investor behavior. The lightly regulated model, with its strong presumption that self-regulation will be a stabilizing influence, has been rejected along with the assumption that sophisticated participants in sufficient numbers accurately perceive and manage shifting systemic risk. (Spence 2011a, 131)

In a paper with Sandile Hlatshwayo, Spence argued for politicians to address inequality and income distribution (Spence and Hlatshwayo 2011). On policy choices to achieve "equity," Spence and Ravi Kanbur have written:

> People generally care about equity for both moral and pragmatic reasons. Those reasons are translated into political and social choices and implemented by policy. The political challenge is to avoid the zero-sum game version of this exercise in which one person's gain is another [*sic*] loss. Thus it is important to create and choose policies that deal with equity but also promote (or do not impede) growth

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> and expanding opportunity of an inclusive kind. The challenge must be thought of as an intertemporal one and not simply as a static redistributional one. (Kanbur and Spence 2010, 13)

In a 2011 book, Spence commented on the role of government: "Effective governments and markets are both essential ingredients. They are not in competition with each other but rather complementary parts of the process. To be sure, governments *can* be too intrusive. But they can also be too small and ineffective" (Spence 2011a, 95). Concerning economic freedom, Spence wrote:

> The microeconomic dynamic is associated with investment for profit, entrepreneurial activity, entry, and exit. It is a decentralized, bottom-up process. To function, it requires a certain kind of economic freedom. In the modern era, that freedom includes access to markets and to financing, as well as a system of government and governance that allows people to exercise this freedom by making investments and forming businesses without excessively burdensome approval processes or outright restrictions. It also depends on some system of property rights. For the process of investment to operate, people must be able to own assets and buy and sell them. And it relies on a reasonable degree of stability, without which investment risk is elevated and investment suffers. (Spence 2011a, 104)

Spence speaks here of "freedom" and "forming businesses without excessively burdensome approval process or outright restrictions," yet we have not found any call by Spence for liberalizing specific restrictions on freedom.

Spence has encouraged nations to strengthen their economies by investing in public assets (Spence 2013a). In a 2011 interview, Spence advocated stronger efforts to raise employment:

> Some leader is going to have to stand up at some point and say we really need to spend money putting people back to work, period. … [T]he way we're doing it is putting all the burden on the unemployed while trying to leave the employed untouched. Eventually, this is going to require a redistribution of that burden. (Spence 2011b)

Spence's critique of the free market includes both pragmatic and social aspects:

> Markets are tools that, relative to the alternatives, happen to have great strengths with respect to incentives, efficiency, and innovation. But

> they are not perfect; they underperform in the presence of externalities (the un-priced consequences—for example, air pollution—of individual actions), informational gaps and asymmetries, and coordination problems when there are multiple equilibria, some superior to others.
>
> But markets have more fundamental weaknesses. Or, rather, most societies have important economic and social objectives that markets and competition are not designed to achieve. In today's rapidly globalizing world, the most important of these objectives—expressed in various ways through the political and policymaking process in a wide range of countries—are stability, distributional equity, and sustainability. (Spence 2012)

Professor Spence kindly responded to our questionnaire, sending the following message:

> I grew up in Canada. So the context doesn't quite fit the American structure.
>
> I think my family was and I was and remain what might be termed a centrist democrat, with respect for markets, incentives and freedom but with a view that there is an individual and a collective responsibility for inclusiveness, expressed partially through government.
>
> In terms of evolution not much has changed in that respect, but I know much more about the world and the developing countries where 85% of the world's population live. I have always believed that government has a crucial evolving (with circumstances) complementary role to markets, to play. That belief has been reinforced by the experience of developing countries. (Spence 2013b)

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George J. Stigler

by Daniel B. Klein

The only child of German-speaking immigrants to the United States, George Stigler (1911–1991) grew up in the Seattle area and attended the University of Washington, graduating in 1931. He went to Northwestern for his MBA, and then to the University of Chicago for his Ph.D. in economics, conferred in 1938. In his Nobel autobiography he described the professors and fellow students who influenced him during his graduate studies at Chicago:

> The University of Chicago then had three economists—each remarkable in his own way—under whose influence I came. Frank H. Knight was a powerful, sceptical philosopher, at that time vigorously debating Austrian capital theory but gradually losing interest in the details of economic theory. Jacob Viner was the logical disciplinarian, and equally the omniscient student of the history of economics. Henry Simons was the passionate spokesman for a rational, decentralized organization of the economy. I was equally influenced by two fellow students, W. Allen Wallis and Milton Friedman. (Stigler 1983a)

In another autobiographical essay, besides his close friends Wallis and Friedman, Stigler mentions also Paul Samuelson, Kenneth Boulding, and Sune Carlson as fellow students, and writes: "The give-and-take among us students…was the first experience I had of constant exchanges in a circle of first-class minds, and I acquired a lifelong taste for it" (Stigler 1995, 99).

Beginning in 1936, Stigler taught at Iowa, Minnesota (there overlapping for one year with Friedman), Brown, and Columbia. Stigler then returned to teach at Chicago in 1958 and remained there. In 1982 he received the Nobel Prize in