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James Tobin [Ideological Profiles of the Economics Laureates]

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Abstract

James Tobin 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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James Tobin

by Daniel B. Klein and Ryan Daza

James Tobin (1918–2002) was one of the generation of economists influenced by growing up during the Great Depression. Tobin says his interest in macroeconomic problems came from his mother, a social worker dealing with the unemployed, and his father, who was intellectual and a "liberal on his own" (Tobin 1999b, 868). Tobin seems to have been fairly constant in his view, favoring private markets subjected to regulation and Keynesian management (Krugman 2002).

Tobin (1999b, 870-871) highlights Keynes's influence during his youth: "Keynes was fascinating because it looked like he had a fruitful new way of going about economics. To me, it looked like fun. And then on the other hand this was also a revolt. I think revolts against old established wisdom are exciting to young people. It was exciting to me even though I had not been really taught the old economics enough to know what Keynes was revolting against. … Keynes was a keen observer of the real world. It had the ring of truth to my ears back then."

Tobin went to Harvard University for undergraduate and graduate work. In college, Tobin was a New Dealer (Tobin 1986, 118) and recalls that Franklin D. Roosevelt was his political hero (Tobin 1996, 661). In his Nobel autobiographical notes, Tobin wrote: "The miserable failures of capitalist economies in the Great Depression were root causes of worldwide social and political disasters" (Tobin 1982a).

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Tobin's doctoral studies were interrupted by the War. He held a position at the Office of Price Administration and Civilian Supply which helped France and Britain allocate scarce materials away from civilian use for military programs. He remembers enjoying working in the bureaucracy in Washington before the United States entered the war (Tobin 1999b, 872). During World War II, Tobin joined the U.S. Navy and served overseas as a navigator of a naval destroyer for three and a half years (ibid.). Upon returning to civilian life, he returned to Harvard to finish his Ph.D.

Tobin joined the faculty at Yale University in 1950 and remained at Yale thereafter. He won the Nobel Prize in 1981 "for his analysis of financial markets and their relations to expenditure decisions, employment, production and prices."

Tobin claimed to be part of the "Yale school," to be contrasted with the "Chicago school." Tobin reflected:

> I think that what people mean by the Yale school goes back to the 1950's. It is identified with my, and Art Okun's, macroeconomic and monetary views and teachings. … In our work we attempted to provide a reasonably systematic view of what Keynesian economics was, and what applications were possible. In monetary theory, the Yale school provided an alternative to monetarism. It involved the possible roles of monetary and fiscal policy. I was very much involved in that controversy with monetarists. (quoted in Colander 1999, 120)

Tobin also spoke of conflict with "the enemy," the real-business-cycle theorists:

> That's what we've been fighting about all these years, and that's just a repetition of the conflict between Keynes himself and the economists he regarded as Classicals—not the best word to use for them. The New Classicals and the real-business-cycle believers are much more extreme than the people that Keynes was arguing with in his day, but it's the same argument over again. Actually, Pigou was a much more reasonable, plausible economist than Lucas and some of the other New Classicals. (quoted in Colander 1999, 123)

At his Nobel banquet, Tobin (1982b) said of economics that "a subject so close to politics and policy inevitably blends ideology and science. The vision and energy that bring new ideas are often ideological and political, but free professional scrutiny selects the ideas deserving of survival."

As economic advisor to John F. Kennedy, Tobin helped craft a tax cut, and later opposed Ronald Reagan's tax cuts. Criticizing the Johnson Administration

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for failing to prioritize the war on poverty over the Vietnam war, Tobin lamented: "[T]he issue of inequality [is] too long off the agenda of American politics. It is high time—let us hope it is not too late—to take drastic action to reduce economic inequality. I hope that affluent middle-class Americans and their leaders have enough political maturity and perspective to take such action even though they have to tax themselves to finance it" (Tobin 1968, 28-29).

In 1970 Tobin wrote a paper outlining a concept of "specific egalitarianism":

> This is the view that certain specific scarce commodities should be distributed less unequally than the ability to pay for them. Candidates for such sentiments include basic necessities of life, health, and citizenship. Our institutions and policies already modify market distributions in many cases, and the issues raised by specific egalitarianism are central to many proposals now before the country. (Tobin 1970, 264)

Tobin did make comments critical of certain welfare state policies: "Inflationary bias [from Keynesian protagonists of the 1970s], was exacerbated by social welfare legislation, extended and expanded as it was by postwar administrations and Congresses of both parties, most dramatically beginning with the Great Society programs of the late 1960s. Social insurance dulls to some degree the incentive to seek and accept employment, especially the less remunerative or attractive jobs" (Tobin 1983, 33). He continues: "The promotion of monopolistic powers for unions of workers and farmers was justified by J. K. Galbraith and others as countervailing the monopolistic powers of big business, to the benefit of society as a whole. This dubious proposition was never congenial to liberal Keynesians devoted principally to full employment and diminished inequality" (ibid.).

But Tobin believed that Ronald Reagan's "counter-revolution" went too far:

> Equality of opportunity has been an American ideal… Opportunities are actually far from equal. We Americans escaped the feudal castes of the Old World, but erected our own racial, religious, and ethnic barriers. … Here as in other democracies, governments have sought to arrest the momentum of inequality by free public education, social insurance, 'war on poverty' measures, and progressive taxation. U.S. budget and tax legislation of 1981 is a historic reversal of direction and purpose. …[T]he message is clear enough; inequality of opportunity is no longer a concern of the federal government. … In the hasty competition of both parties for the favor of wealthy constituents,

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> Congress casually liberalized these taxes without concern for unchecked dynastic wealth and inequality of opportunity. (Tobin 1983, 36-37)

Tobin was not shy in his criticism of the Reagan Administration's economic policies:

> The Reagan economic program is advertised to cure inflation and unemployment, to revive productivity, investment, hard work, and thrift. It probably cannot achieve those wonderful results. What it is sure to do is to redistribute wealth, power, and opportunity to the wealthy and powerful and their heirs. If that is its principal outcome, the public will become considerably disenfranchised. Despite its free market ideology, the Administration has done little to dismantle regulation and subsidies that are costly, inefficient, and inflationary. … The Administration is by no means devoted to market freedom, competition, and consumer interest as to challenge important business, labor, and farm constituents. These politically sacred cows have been around a long time, and no other administrations have mustered the will or power to kill them either. But an administration that claims a popular mandate for counter-revolution should not leave unscathed the most objectionable features of the old order. (Tobin 1983, 38)

Tobin, however, also cautioned against and even criticized over-regulation. "We should be especially suspicious of interventions that seem both inefficient and inequitable, for example, rent controls in New York or Moscow or Mexico City, or price supports and irrigation subsidies benefiting affluent farmers, or low-interest loans to well-heeled students" (Tobin 1994, 330).

Tobin (1978) suggested a small tax to reduce currency speculation, an idea that became known as the Tobin tax (see Tobin 1999a, 167). But Tobin (2001) strongly objected to others' proposals that a "Tobin tax" be used to limit trade in goods, expressing his support for the International Monetary Fund, World Bank, and World Trade Organization.

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