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## **William Vickrey [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

William Vickrey 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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## William Vickrey

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

William Vickrey (1914–1996) was born in Victoria, British Columbia, and attended Phillips Academy in Andover, Massachusetts, for high school. He went to Yale for his bachelor’s degree and graduated in 1935 with a B.S. in mathematics. He received his master’s in 1937 and Ph.D. in 1948 from Columbia University; being “a Quaker, a pacifist, and a moral economist” (Holt et al. 1998, 1), Vickrey was a conscientious objector in World War II (Brownlee and Ide 2013, 202). Vickrey became a professor at Columbia and remained there for the rest of his career.

Richard Arnott (1998, 108) ascribes to Vickrey a primary concern with social justice (see also Drèze 1998), yet Vickrey often recommended unorthodox policies to better achieve his ethical goals (Warsh 1996). Few of Vickrey’s recommendations were implemented because of his “lack of political sensibility” (Holt et al. 1998, 1). However much Vickrey may have lacked said sensibility, we admire Vickrey not least for the way his discourse can assume an ethical voice in a candid and natural manner (see, for example, Vickrey 1979). David Colander (1998) warmly treats Vickrey’s willingness to carry “kooky” ideas forward, both in the profession, not minding that it would take ten or twenty years for others to come around, and in personal life, such as roller-skating to work.

In 1996, Vickrey was awarded the Nobel along with James Mirrlees “for their fundamental contributions to the economic theory of incentives under asymmetric information”—in Vickrey’s case, particularly for his work on taxation. His colleague Paul Davidson recalls the days following the prize announcement: “In a flurry of interviews between the eighth and the eleventh of October, Vickrey noted that he was pleased to be a Nobel laureate not for the money that he would personally receive but for the public platform it would afford him to explain how ‘the insane pursuit of the holy grail of a balanced budget in the end is going to drive the economy into a depression.’ Here finally was a voice that could attract attention to the Keynesian verity that there was an important role for the government ‘to exercise a guiding influence’ to ensure that effective demand is maintained at its full-employment level” (Davidson 1997, 493).

Sadly, no such service was Vickrey able to perform, for just three days after the award announcement he suffered a fatal heart attack.

Vickrey is well known for his writings on taxation, but he worked on a variety of issues. “[H]is choice of topics stemmed from social and moral concerns, [and] his treatments of them stressed improvements in resource allocation. . . . ‘Greater efficiency for the common good’ would be an appropriate slogan for his work” (Arnott 2008). Timothy Canova says that Vickrey “pointed out that the official

unemployment rate seriously understates the true level of joblessness and underemployment. Mass unemployment, he argued, remains one of the most significant contributing factors to a wide range of ‘social pathologies,’ including poverty, homelessness, crime, drug abuse, divorce, domestic violence, broken homes, racial and religious antagonisms, and neglect of educational opportunities. He urged a program of what he called ‘chock-full employment’ to address the full range of pressing social problems” (Canova 1997, 97).

In an obituary for Vickrey, David Warsh describes his politics: “[H]e remained to his death a committed Keynesian, preoccupied with the specter of global oversaving. But his contributions to financial engineering were on par with those other progenitors of privatization deregulation. ... Vickrey was...a dispassionate investigator of capitalism who kept his liberal convictions in the background”(Warsh 1996).

Before working toward his doctorate degree, Vickrey worked in the Tax Research Division of the U.S. Treasury (Arnott 1998, 97). In an early paper, he proposed making income taxes more equitable by using cumulative averaging to smooth tax bills (ibid.). His extensive dissertation, published as *Agenda for Progressive Taxation* (Vickrey 1947), outlined more new taxation schemes. Vickrey aimed to “provide a fairly detailed analysis of some of the problems involved in progressive taxation and to suggest how these problems can best be met” (ibid., iii). His purpose was to provide an agenda for lawmakers “who are interested in improving the progressive elements in our tax structure.” He continued: “Accordingly, skipping briefly over the philosophical and theoretical background of progressive taxation, I have proceeded to discuss point by point just what must be done to weld our progressive tax structure into a consistent, workable system, reasonably free from undesirable repercussions and capable of producing substantial redistributions of income” (ibid., iii-v). “The ultimate goal should be a tax system in which income, spending, and succession taxes (and as a remote possibility, taxes on net worth) are the only taxes levied primarily for revenue. Other taxes should be designed, both as to rates and form, independently of revenue considerations” (ibid., 392).

He continued:

It may be felt by many that the reforms suggested here are too utopian and perfectionist. To be sure, the present trend is all in the direction of simplification and of overlooking refinements that involve additional allowances or computations, and indeed there is much to be said in favor of simplification. (Vickrey 1947, 393)

If a tax is set up so that the burden is the same regardless of the action of the taxpayer, it follows that there will be no loopholes by which the taxpayer can escape tax. There will be no need to try to circumscribe the avenues of avoidance by detailed and minute distinctions between the treatment to be applied to various possible lines of action, nor will there be any occasion to superimpose upon the law a patchwork of loophole-plugging provisions. In the long run, the correct method will usually pay bigger dividends in simplicity and freedom from unforeseen difficulties than rough and ready approximations. (*ibid.*, 395)

In 1992, Vickrey offered an “Updated Agenda for Progressive Taxation,” in which he called for a more neutral capital gains tax through raising rates for longer holding periods (Vickrey 1992a, 257). He proposed encouraging investment by cutting the corporate income tax (*ibid.*, 258).

Government debt was a topic that was prominent in some of Vickrey’s later writings. In 1986 Vickrey stated that, when lawmakers decide on a level of debt finance, the most important consideration should be the maintenance of full employment: “The loss of output and the social problems that arise from unemployment are such serious matters as to dominate all other considerations” (Vickrey 1986, 12).

In 1993, Vickrey wrote in a working paper: “We are not going to get out of the economic doldrums as long as we continue to be obsessed with the unreasoned ideological goal of reducing the so-called deficit. The ‘deficit’ is not an economic sin but an economic necessity. Its most important function is to be the means whereby purchasing power not spent on consumption, or recycled into income by the private creation of net capital, is recycled into purchasing power by government borrowing and spending. Purchasing power not so recycled becomes nonpurchase, nonsales, nonproduction, and unemployment” (Vickrey 2000, 189).

In another piece published posthumously, Vickrey wrote: “Full employment requires large government debts. For the industrialized world as a whole, and for most of its constituent countries individually, it has become impossible, for the foreseeable future, to achieve sustained adequately full employment without large and growing government debt and corresponding budget deficits” (Vickrey 1997, 497). In the same paper Vickrey made similar pronouncements, such as: “Large government debt can have a stabilizing effect” and “A larger government debt can increase the real heritage left to future generations” (1997, 508-509).

Vickrey also developed an idea of how to avoid the Phillips Curve tradeoff between inflation and unemployment. According to Vickrey, the existence of the tradeoff is an institutional outcome:

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It is one of the awkward facts of current political life that unless unemployment reaches extreme levels, those who tend to regard inflation as a more serious threat to their well-being are likely to outnumber significantly those who think employment is the greater threat. ... The tendency to regard inflation as the greater evil is especially strong in influential financial circles and among monetary authorities. Accustomed to focus on values expressed in terms of money, they tend to regard inflation as a kind of sacrilege against the integrity of the monetary unit in terms of which good and evil tend to be calculated. ... Indeed, under current practices the only way in which fiscal and monetary authorities can restrain inflation is by creating unemployment. The evil inheres not in inflation per se but the inept measures taken to suppress it. (Vickrey 1992b, 341)

Arnott summarizes Vickrey's proposal:

Why not, Vickrey reasoned, create [a]...market for price increases (at least for major standardized products)? By restricting the number of marketable markup warrants, the government could control the overall level of price increases, and could therefore pursue expansionary macroeconomic policy, thereby reducing unemployment, without worrying about creating inflationary pressures. The proposal is ingenious but at the same time not very sensible. (Arnott 1998, 107)

On Social Security, Vickrey wrote: "Privatization, or other moves towards full actuarial funding of old-age pension provisions of social security systems can be disastrous" (Vickrey 1997, 502).

On the size of government, Vickrey wrote: "Unemployment-reducing fiscal policy does not require an increase in the overall size of government operations. To be sure, anarchy-libertarians have combined the mystique of the balanced budget with appeals to a popular aversion to taxes to promote an indiscriminate downsizing of government. But full employment can be reached by either high taxes and even larger government, or by low government and even smaller taxes" (Vickrey 1997, 503).

In the 1993 working paper, Vickrey wrote: "Many profess a faith that if only governments would stop meddling and balance budgets, free capital markets would in their own good time bring about prosperity, possible with the aid of 'sound' monetary policy. It is assumed that there is a market mechanism by which interest rates adjust promptly and automatically to equate planned savings and investment in a manner analogous to the market by which the price of potatoes balances

supply and demand. In reality no such market mechanism exists. If a prosperous equilibrium is to be achieved, it will require deliberate intervention on the part of monetary authorities” (Vickrey 2000, 200).

Vickrey did extensive work showing the efficacy of tolls for easing congestion. A pre-eminent urban transport economist, Vickrey created the first useful model of bottleneck traffic dynamics (Arnott 2008).

Although Vickrey was often disappointed at the lack of implementation of his policy suggestions, his work has had some major impacts.

His seminal work on auction theory has already had a major impact on the allocation of drilling rights, timber rights and bandwidth; his work on marginal-cost pricing has been influential in the adoption of more sophisticated pricing policies by a wide range of public utilities and will become increasingly influential as cost-effective technologies to implement his proposals are developed; congestion pricing of urban auto travel is being actively debated in a host of jurisdictions, and crude forms of it have been introduced in some... (Arnott 1998, 93)

On the purposes of economics, Vickrey once commented: “Our best hope is probably to make the self-interest-powered part of our economic system as smooth-running as possible, so that more and more of our conscious effort can be directed towards the solution of those problems that cannot be resolved without explicit ethical considerations” (Vickrey 1953, 177). This comment, Arnott says, “provides at least part of the answer to...why Vickrey, despite his strong commitment to social justice, tended to propose policies aimed at improving efficiency” (Arnott 1998, 108).

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