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BOOK REVIEW

Johan Van Overtveldt, *The Chicago School. How the University of Chicago Assembled the Thinkers who Revolutionized Economics and Business*, Agate Publishing, Chicago, 2007, 432 p. USD 35.00 (ISBN 1-932841-14-8)

History of economic thought is a delightful topic though these days somewhat out of mode as a field of specialisation for economic scholars. The present book seems to contradict this view as it deals with, to paraphrase Chicago economist's George Stigler, the history of the hypothetical kingdom of the Chicago school of economics, which is a relatively young university. As such this monograph is a genuine contribution to the history of economic thought in the United States over the last 100 years or so, focusing on America's Midwest far away from the cultural centers of the East and the West. This geographic emphasis is certainly a novelty. The reader may wonder what justifies this and whether it pays. Mr. Van Overtveldt's book, based on extensive interviews with economists as well as archival research gives the answer.

According to Van Overtveldt the economists working at the University of Chicago played an important role in the development of economics as a scientific discipline during the 20th century. Evidence for this is, according to the author, the Nobel Prize winning track record since 1969 when this prize for economics was instituted, with nine laureates associated with Chicago. By this count the economics department of Chicago has more than the double of the number of winners to 2004 at Harvard or Berkeley. But also the list of recipients of the Francis A. Walker medal, discontinued in 1981, or the number of Chicago economists awarded the John Bates Clark Medal, provide on the count by Van Overtveldt a numerical dominance of these honors for University of Chicago. The key question here is what made economists of Chicago so special.

The University of Chicago opened on October 1, 1892. This event was the result of an effective and imaginative effort of two men: William Rainey Harper and John D. Rockefeller. Harper, a biblical scholar and a former professor at Yale's divinity school had a dream of a university that focused more on research than teaching which in his view was almost impossible at a State University. Harper convinced the tough businessman Rockefeller and the wealthiest of all Baptist layman, of the desirability of a research oriented new university in Chicago. The old university of Chicago, run by the Chicago Baptist community, existed from 1858–1886 but disappeared because of lack of vision, inadequate endowment and insufficient sense of purpose. And Harper knew this history as did the devote Baptist Rockefeller. Believing in Harper he agreed to contribute USD 600 000. Rockefeller instinctively sensed that with his business practices under attack in the late 1880s, a major philanthropic enterprise outside New York, his own business center, and Washington DC, would be a suitable psychological diversion. Moreover, the decidedly non-Baptist Marshal Field, Chicago's leading merchant, donated the site for the new university on the Midway Plaisance, to show his sympathy. Harper became its first president, till his sudden death in 1907, and began energetically recruiting people from all over the country who excelled at research, sharing his his ideal of a research oriented university. With the Rockefeller dollars Harper shamelessly and unencumbered by inherited restraints, robbed Yale, Harvard, Cornell, Hopkins and other schools of their best men. Thus, Chicago got a department of political economy, the first in the country, to establish scholarly distinction.

The founding fathers in the field of economic study at Chicago who were there from day one, were James L. Laughlin and Thorstein Veblen. Laughlin brought Veblen along to the University of Chicago from Cornell and made him editor of the *Journal of Political Economy* launched in 1892. Soon it would become the most influential academic journal in the profession. Earlier, in the winter of 1891, Laughlin impressed Harper during a debate on monetary matters. Harper became convinced that Laughlin was the right person to start the department of political economy at Chicago. The two men agreed and Laughlin started with an annual salary of USD 7000, at a time when senior professors at Harvard or Yale were seldom paid more than USD 4000. The specialist in money and banking Laughlin also fought for the creation of a business school at the University of Chicago. This came through in 1898. Two other important early contributors to the advancement of the University of Chicago as a major center of economic research were John M. Clark and Leon C. Marshal. John M. Clark, son of John Bates Clark, arrived in 1915. He stayed for the next ten years to return to Columbia. Clark emphasized the need for solid economic theory and especially price theory. However, in his early days his major contribution to economics was outside price but about the acceleration principle to explain the business cycle. By this and other important scholarly work John M. Clark brought prestige to Chicago. It was Leon C. Marshal who recognized this and recruited Clark. Marshal, recruited by Laughlin, had a solid scholarly and administrative reputation. When Laughlin retired in 1916, Marshal was a natural successor and became department head. In this capacity he pointed the way to modern education in economics with an eye for the importance of empirical research. The recruitment of John M. Clark appears to be a major contribution in this. The fifth founding father is Frank Knight who returned to Chicago around 1915 to fill John M. Clark's vacant chair in economic theory. He stayed in Chicago for the rest of his life. To this five pioneers Van Overtveldt adds Aaron Director, Milton Friedman's brother in law and identified later by Stigler as a modern Socrates. He became the sixth founder of the Chicago Tradition who got his own weight. He published little but influenced many.

The basic characteristics of this tradition are a strong work ethic, an unshakable belief in economics as a true science, academic excellence, an intense debating culture and the University of Chicago's two dimensional isolation, i.e. in style and place. Much of the credit of this Chicago Tradition has to go to the University's first president, William Rayney Harper.

The Chicago school believes that the price mechanism is vital for successfully solving economic problems and that using this assumption is a requirement for understanding a broad range of societal phenomena. The teaching of Graduate Course 301 reflects this belief and became the key element in the teaching program. The teaching of this strategic course was entrusted to the big guns who all cherished in the neoclassical heritage of Alfred Marshall as an analytical tool. Over the years till 1945 this course was given by Herbert Davenport, Jacob Viner and Frank Knight and after World War II successively by Milton Friedman, George Stigler and Gary Becker, who with the exception of Viner who did not live long enough, all became Nobel Prize laureates.

Viner born in 1892 earned his PhD at the University of Chicago and went to Harvard in 1915 where he worked with F.W. Taussig the leading international trade economist of the time. In 1919 he returned to Chicago that he left in 1946 for Princeton. Viner initiated the systematic teaching of neoclassical price theory as the backbone of all education in economics in Chicago. Viner was also known as an outstanding historian of economic thought and a macroeconomist *avant la lettre*, critically recognizing the importance of Keynes. Friedman became known as a crusader to the neglect of money that matters in his view. Because of the empirical evidence he found in testing the Keynesian approach against the quantity theory of money he rejected Keynes aggregate spending approach and the associated empirical macro econometric models inspired by this. However, Friedman did also important work outside the monetary field on consumption, methodology and, in his early days, even designed a statistical test. Stigler also did seminal theoretical work such as on the economic theory of regulation and for the discipline of industrial organization. Becker focused on issues of crime, marriage, divorce, fertility and suicide which he studied within the rational framework of price theory and utility maximization. Becker's basic point was that these events only happen because they do pay.

Of course their were others like the labour economist Paul Douglas, Henry Schultz who laid the groundwork for empirical verification of economic theory to become the basic element of the Chicago tradition, the welfare economist Ronald Cease, the agricultural economist Theodore W. Schultz who also pioneered in the field of human capital which became an important ingredient of the Chicago school. Like Douglas, with the mathematician Charles W. Cobb, inventor of the so called Cobb-Douglas production function, who arrived at Chicago in 1920, Henry Schultz, appointed in 1926, and author of *The Theory and Measurement of* Demand, published in 1938, was more mathematically and empirically oriented than their contemporaries, causing a bitter conflict with Frank Knight who rejected the quantitative approach fiercely.

Incidentally, Paul Douglas and a few years later the non-Keynesian labour economist George P. Shultz who came to Chicago's Business school in 1957, went to Washington DC., Douglas in the 1950s as a Senator and Shultz in the 1970s to join the Nixon administration as Secretary of the Treasury while in the 1980s he joined the Reagon administration as Secretary of State. These scholars and others brought fame to Chicago. Van Overteveldt provides an accurate and detailed historical account of this interwar and postwar period in Chicago and the conflict between generations. He also carefully describes the methodological controversies and personal hostilities within the department and the Graduate School. Noteworthy postwar examples of the 1950s are the ideologically inspired fight between the Cowles Commission for Research, with Tjalling Koopmans, Trygve Haavelmo and Lawrence Klein as influential members and in the late 1970s and early 1980s the split between the econometricians Henry Theil, coming from the Rotterdam School of Economics, and Arnold Zelner formerly of the University of Wisconsin, Madison. Both the Cowles Commission and Theil left Chicago which, I presume, must have been a major intellectual loss for the University of Chicago. It is regrettable that Van Orteveldt did not comment or speculate on these events as they have been remarkable at the time. In the 1980s there was also the controversy between the finance people like Fama and Shleifer on the efficiency of capital markets and the alternative of behavioral finance that rejected the assumption of full rationality. However this dispute was settled intellectually within the framework of alternative hypotheses and contributed to the academic reputation of the Graduate School of Business and Economics as a major center of financial research.

This book is both a readable and interesting history of the way economics were scholarly practiced in Chicago. Moreover, it offers an in depth analysis of the nature and influence of the Chicago Tradition and School from the early beginning in the 1890s to the present with clarifying biographical detail on the main players. The author unfolds in a very elegant way that the University of Chicago became the home of many important and influential economic thinkers. All this happened, Van Overtveldt suggests, within a culture of scholarly excellence that allows dissenters but loves ruthless intellectual debate. However, he also tells a story of devoted researchers and talented teachers that established a strong belief in the efficacy of free markets as a means to organize resources and shaping society. For several reasons Mr. Van Overtveldt has written a delightful monograph that certainly earns our praise.

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