McCLOSKEY AT CHICAGO

by

Steven E. Landsburg

In 1974, I discovered that Paradise was real. It was about ten blocks square and located on the south side of Chicago. I came to study math, and I discovered magic — a place where the air was thick with ideas and every bar or coffee shop housed a half-crazed scientist or anthropologist or student of Polish literature who would hold you with his glittering eye and share the hard-won fruits of three years' preoccupation with some bit of esoterica. In those same bars and restaurants, people ordered extra beers to use in science experiments. You could walk into a grocery store and see the world's greatest astrophysicist selecting his Cheerios.

We were dazzled, all of us, all of us who had come here hoping to escape the ordinary, to be touched by greatness, to enter into the Life of the Mind. The math students, the history students, the political science students — all of us were dazzled. But there was a special quality to the dazzlement of the economics students, who were taking a course in Price Theory from a certain Professor McCloskey, who kept them in a perpetual state of shock and awe.

If you went to lunch with those economics students — which I did, as often as possible — you'd get an earful of the the latest. If crime prevention is expensive, then it's possible for Hyde Park to have too *little* crime. Perhaps the best social use for Lake Erie is as a dumping ground for chemical wastes. Rising food prices or rising oil prices can't explain inflation, at least not by the mechanisms most people imagine. A frost in Florida won't cause a shortage of oranges. When there's an increase in the price of steel, car prices will rise by *less* if the auto industry is monopolized than if the auto industry is competitive — though several members of the president's Council of Economic Advisors had believed otherwise. I recall that Professor McCloskey suggested running that one past your Marxist friends.

The point is not that these things were counterintuitive, though they were in fact counterintuitive — wildly, preposterously, insanely counterintuitive. The point is that McCloskey's explanations rendered them *completely* intuitive, completely clear, and completely incontrovertible, to the point where you suddenly couldn't remember how you'd ever doubted them.

Getting this stuff second hand over the lunch table, I was blown away. That, perhaps, is not so remarkable. I was, after all, a math major who had never taken an economics course. Economic insight probably has a diminishing marginal capacity to astonish, and I was starting with a stock of zero.

But this part *is* remarkable: The econ students were just as astonished as I was. Think about that. These people had just spent four years studying economics, mostly at elite colleges where they'd been culled from the cream of the crop — and they were shocked to discover that if crime prevention is costly, then it's possible for Hyde Park to have too little crime. Yes, it really was possible to master Samuelson's Foundations and still not have the foggiest idea how to think like an economist. Don McCloskey was fixing that.[1]

And then his students went out and fixed it further. They took what they'd learned from Don and, frequently armed with a remarkable new textbook called *The Applied Theory of Price*, they set out to bring price theory to the undergraduate masses.

I routinely challenge my average-quality freshmen and sophomores with the same sort of problems that stumped many of Chicago's finest in 1974. Thanks to what I learned from Don, both about economics and about how to teach, my students routinely succeed. I've taught over 10,000 of them since I came to Rochester, and I believe I've gotten through to well over half of them. That makes 5000 people who have a better and deeper appreciation of the world — and, not incidentally, a better and deeper appreciation for the sheer joy of learning — because of what Don McCloskey made possible.

And I, of course, am only one of many. Don's disciples have carried the gospel throughout the world. And they've not forgotten their origins. I'm sure of this, because I recently contacted a few of them and asked how Don had influenced their teaching.

Rich Burkhauser has taught introductory micro to large classes at Vanderbilt and Cor-

[1] One of the first lessons I learned from McCloskey was the importance of seeing the past through the eyes of those who experienced it. In any account of the 1970's, then, Dee must be Don.

nell for almost forty years. He tells his students that when you first grasp the explanatory power of economic ideas, you'll feel like the movie hero who suddenly grasps The Matrix and realizes he can pull bullets out of the air. Rich remembers feeling exactly that way in Don's class, and believes that the best of his students have had the same experience.

Many of Burkhauser's contemporaries — Aloysius Siow at Toronto, Vasan Sukhatme at Macalaster, Bart Taub at Illinois and Glasgow — have also been teaching large introductory classes for thirty years or more and attribute their successes to Don. Much like Rich, Vasan told me that for him, teaching has been a constant joy precisely because it revivifies the experience of taking Price Theory from Don McCloskey — by far, Vasan says, the most interesting and the most fun course that he has ever taken.

Many of these people relied heavily on *The Applied Theory of Price* or on succeeding textbooks, including my own, that, depending on your perspective, either heavily borrowed or outright stole from it. Here was a book that illuminated each new concept with a series of closely related problems that forced students to *think*. Like so much of the substance of what McCloskey taught, this stylistic innovation seems obvious in retrospect but was revolutionary at the time.

Don's influence was magnified by his charisma and by his legendary generosity, which many of his disciples have tried to emulate, with varying degrees of success. My own life was transformed several times by that generosity, starting with the time he agreed to meet in his office with a math grad student who had just realized that he loved economics. I expected him to tell me to stick to math. Instead he gave me a rousing pep talk that made me love economics all the more. Later I sat in on his economic history class, and though I wasn't taking the class for credit, I chose to write a term paper. Don had no obligation to read it, but he marked it up in detail and encouraged me to publish it. It landed — partly, I suspect, due to Don's enthusiasm and influence — in the JPE.

When I decided to emulate Don by writing a Price Theory textbook — which I envisioned as a sort of kinder, gentler version of *The Applied Theory of Price* — I worried that he'd feel either offended or threatened. Instead, he was, from the beginning, almost fanatically supportive. That book is now in its ninth edition, but — except for the substitution of "Dee" for "Don" — the acknowledgements have not changed. Here's the first paragraph of those acknowledgements:

> I first learned economics at the University of Chicago in the 1970s, which means that I learned most of it, directly or indirectly, from Dee McCloskey. Generations of Chicago graduate students were infected by Dee's enthusiasm for economics as a tool for understanding the world, and the members of one generation communicated their exuberance to me. They, and consequently I, learned from Dee that the world is full of puzzles — not the abstract or technical puzzles of formal economic theory, but puzzles like: Could the advent of public education cause less education to be consumed? We learned to see puzzles everywhere and to delight in their solutions. Later, I had the privilege to know Dee as a friend, a colleague, and the greatest of my teachers. Without Dee,

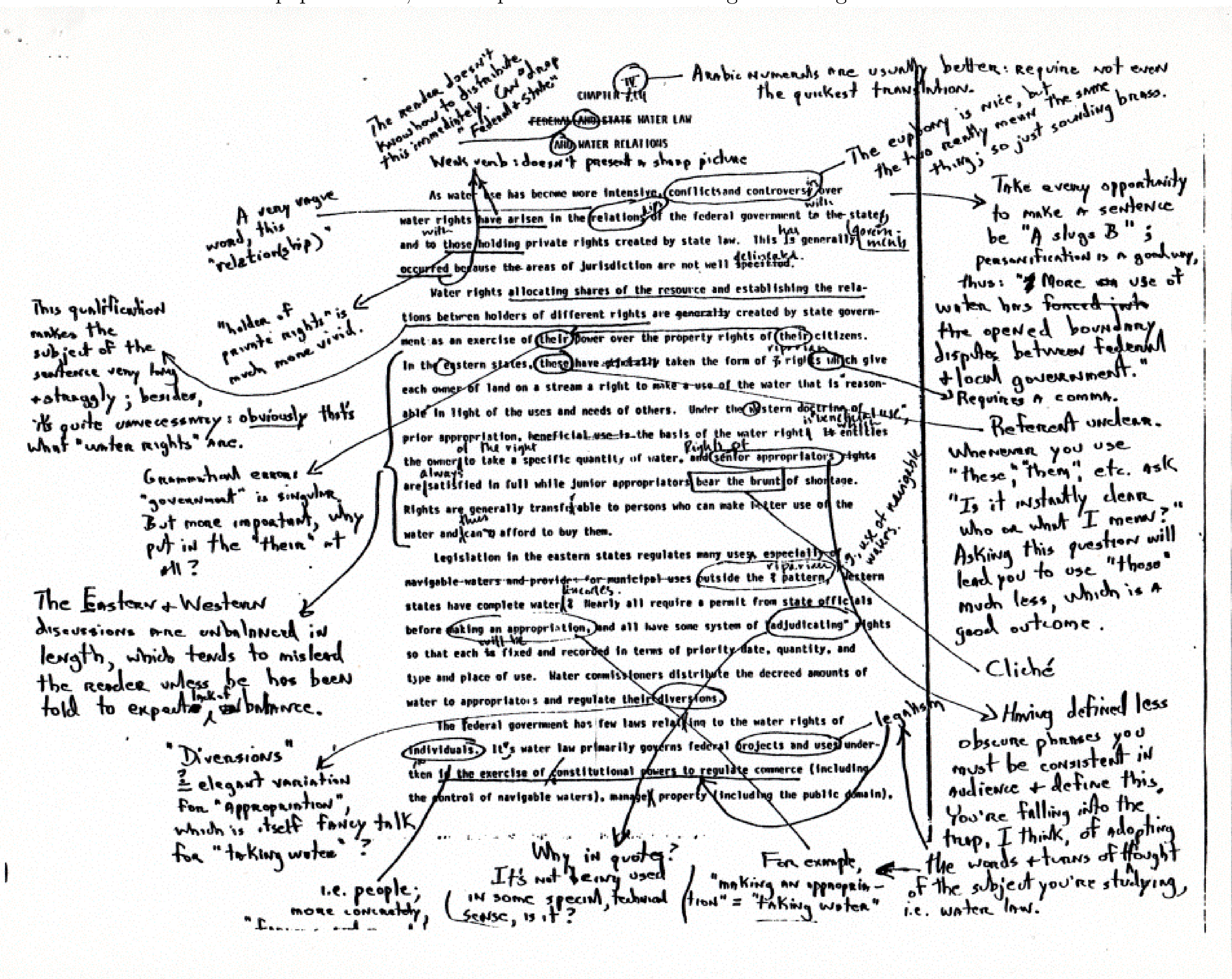
this book would not exist.

But things went even further. Don's inspiration had turned me into an evangelist, and I felt driven to share the power and beauty of economic thinking with a wider audience. So, with Don's blessing and encouragement, I wrote a book called *The Armchair Economist*, and when it failed to make it past the gatekeepers at the Free Press, Don told me to call the editor in chief, Peter Dougherty, directly. I did, and as soon as I mentioned Don's name, Peter was enthusiastically on board.

Armchair has sold a lot of copies in a lot of languages, and I daresay it's done a lot of good. All of that good, from the content to the style to the Free Press imprint, flows ultimately from Don McCloskey.

Others remember Don's generosity as gratefully as I do. Wally Thurman, now at North Carolina State, scored well on a midterm and got a private note asking him to stop by so that Don could put a face with the name. To this day, Wally regrets that he never found the courage to take up that offer. Pete Linneman, now at Wharton, remembers Don's extensive advice on both theory and data collection as crucial inputs to Pete's first paper. And Don's generosity sometimes manifested itself in less conventional ways: When Bart Taub house-sat for Don in the summer of 1978, Don encouraged Bart to throw a party there.

That same generosity revealed itself in Don's relentless drive to improve other people's writing. He showered students with oral and written advice, prepared extensive handouts on writing, and even went so far as to run a sort of after-hours writers' workshop. If you submitted a paper to him, it was apt to come back looking something like this:



CHAPTER ~~III~~ IV

~~FEDERAL~~ AND STATE WATER LAW

AND WATER RELATIONS

As water use has become more intensive, conflicts and controversy over water rights have arisen in the relations of the federal government to the states and to those holding private rights created by state law. This is generally occurred because the areas of jurisdiction are not well ~~specified~~ delineated.

Water rights allocating shares of the resource and establishing the relations between holders of different rights are ~~generally~~ created by state government as an exercise of their power over the property rights of their citizens. In the eastern states, these have ~~originally~~ taken the form of riparian rights which give each owner of land on a stream a right to ~~make a use of~~ the water that is "reasonable" in light of the uses and needs of others. Under the western doctrine of prior appropriation, ~~beneficial use is~~ the basis of the water right is "beneficial use," which ~~it~~ entitles the owner of the right to take a specific quantity of water. Rights of senior appropriators ~~rights~~ are always satisfied in full while junior appropriators bear the brunt of shortage. Rights are generally transferable to persons who can make better use of the water and thus can afford to buy them.

Legislation in the eastern states regulates many uses, especially of ~~navigable waters and provides for municipal uses~~ outside the riparian pattern. Western states have complete water codes. Nearly all require a permit from state officials before making an appropriation, and all have some system of "adjudicating" rights so that each will be fixed and recorded in terms of priority date, quantity, and type and place of use. Water commissioners distribute the decreed amounts of water to appropriators and regulate their diversions.

The federal government has few laws relating to the water rights of individuals. Its water law primarily governs federal projects and uses undertaken in the exercise of constitutional powers to regulate commerce (including the control of navigable waters), manage property (including the public domain).

The reader doesn't know how to distribute this immediately. Can't drop "Federal + State"?

Arabic numerals are usually better: require not even the quickest translation.

Weak verb: doesn't present a sharp picture

The euphony is nice, but the two really mean the same thing; so just sounding brass.

A very vague word, this "relationship")

Take every opportunity to make a sentence be "A slugs B"; personification is a good way, thus: "More use of water has ~~forced into~~ the opened boundary disputes between federal + local government."

"holder of private rights" is much more vivid.

This qualification makes the subject of the sentence very long + struggly; besides, it's quite unnecessary: obviously that's what "water rights" are.

Requires a comma.

Referent unclear. Whenever you use "these," "them", etc. ask "Is it instantly clear who or what I mean?" Asking this question will lead you to use "those" much less, which is a good outcome.

Grammatical error: "government" is singular. But more important, why put in the "their" at all?

use of navigable waters.

The Eastern + Western discussions are unbalanced in length, which tends to mislead the reader unless he has been told to expect a lack of balance.

Cliché

legalism

Having defined less obscure phrases you must be consistent in audience + define this. You're falling into the trap, I think, of adopting the words + turns of thought of the subject you're studying, i.e. water law.

"Diversions" = elegant variation for "appropriation", which is itself fancy talk for "taking water"?

i.e. people; more concretely,

Why in quote? It's not being used in some special, technical sense, is it?

For example, "making an appropriation" = "taking water"

Craig Hakkio, now at the Kansas City Fed, remembers that "Don took every opportunity to remind us that everything economists do (in academia, at the Fed, on Wall

Street, or in business) involves writing, and that writing, like econometric modeling, is a skill that can't be mastered without practice." Craig, whose job involves much writing for the general public, still refers regularly to Don's book on writing. Bart Taub tells me that Don's workshop "really changed how I write ... I try to repeat words and patterns and not to write with 'elegant variation'; I try to be concrete rather than abstract; I try to use Anglo-Saxon words rather than French and Latin."

That, at least, is how I and a few others remember things. For confirmation, I recently asked several more of Don's old students how *they* remembered him, and they pretty much all said exactly the same things. Here's a sampling:

From Rich Burkhauser:

> McCloskey's course profoundly shaped the way I have used economics ever since.

From Glenn Blomquist, now at the University of Kentucky:

> McCloskey's teaching epitomized how good economists think and how incredibly powerful price theory is.

From Craig Hakkio:

> He really taught me how to think like an economist.

From Todd Petzel, now a financier:

[Don's] ability to connect each lesson to a living example is what got all of us to develop an intuition for microeconomics. It wasn't good enough to know the math. One needed to feel the right answer before one solved an equation. ... McCloskey was clearly a master. ... McCloskey's greatest gift to students was a big leg up on how to think like an economist.

From Vasant Sukhatme:

I had done my previous economic studies in India before coming to Chicago. I had used texts by Stonier & Hague and by Henderson & Quandt. Price theory, at least as I had learned it, consisted of considerable formalism, carefully drawn diagrams, and some algebraic proofs. *It had had very little to do with how the world actually works.* There had been virtually nothing concrete or personal or obvious or even intuitive in my previous economics work. *McCloskey turned all this on its head*.

McCloskey used to ask intriguing questions in his problem sets and course exams. I remember quite well some of the questions: What would the demand and supply curves look like for a free good? For a non-existent good? If Congress were to pass a tax on gasoline of 20 cents per gallon, what would happen to the equilibrium *quality* of gasoline? To me, the answers to these questions were so intriguing and counter-intuitive that I would just stare at my notebook in amazement

> and disbelief. But these kinds of questions slowly led me to understand that learning price theory provides deep insight into how consumers and businesses behave. I also came to appreciate for the first time in my life that understanding price theory would enable me to think about important public policy issues.

From Dan Sumner, now at the University of California at Davis:

> McCloskey exposited basic economic theory using only a little mathematics, along with many examples, questions and puzzles. Fairly soon, we realized that he was teaching us to think like economists. One of the things I learned from McCloskey was how easy it is to let the mathematics obscure rather than clarify the economics. With McCloskey we did not get any encouragement to shun mathematical modeling; rather it was to focus on using careful formal modeling as a tool for careful economic thinking.

From Ken Clements, now at the University of Washington:

> Don was a brilliant teacher ... The content was modern and comprehensive ... The whole package was a marvelous experience that contributed greatly to my Chicago education.

From Rick Kilcollin, now a private investment manager:

He was one of the best, if not the best, teacher I ever had.

From Tom Macurdy, now at Stanford:

> I remember McCloskey's course fondly and have realized many times how much I benefited from this course and how unique it was.

The central lesson of all Don's teaching was that one ought to speak (and write!) *mindfully*, not in meaningless jargon. I think of this whenever I hear people describe, say, subsidized health care as a "compassionate" policy. Actually, if the word "compassion" means anything in this context, it means targeting expenditures where they'll do the most good for the recipients, and recognizing that the same people who benefit from subsidized health care might benefit even more from a little help with the groceries or childcare or car expenses. I like to think that somewhere out there is a generation of students who, thanks to McCloskey, is too sophisticated to prefer meaningless blather over the logic of budget constraints.

And lest you fall into the trained economist's trap of thinking that such lessons are too obvious to mention, I am writing this on the day of Pope Francis's historic visit to America, where tickets to see him speak have been distributed randomly. These tickets, of course, have been scalped, leading to this lament from Cardinal Timothy Dolan:

> Tickets for events with Pope Francis are distributed free [via lottery] for a reason — to enable as many New Yorkers as possible, including those of modest means, to be able to participate

> in the Holy Fathers visit to New York. To attempt to resell the tickets and profit from his time in New York goes against everything Pope Francis stands for.

This can, of course, be true only if "everything Pope Francis stands for" consists of the proposition that for New Yorkers of modest means, nothing should take precedence over turning out to see Pope Francis — not groceries, not medicine, not car repairs, not any of the other things that people can buy with the proceeds from selling their tickets (or with the donations they could have received from the Church had the tickets been sold to the highest bidders in the first place).

One hopes and expects that this is not in fact everything Pope Francis stands for, or even a small part of it. The fact that Cardinal Dolan would say otherwise, and be taken seriously, shows just how much the world could use a few thousand more McCloskeys.

There is nothing new under the sun. When an exhibit of artifacts related to King Tut came to Chicago in the 1970s, admission was "free" for those willing to spend a day or so waiting in a queue. Don, always the voice of reason, was eloquent in private and in public about the insanity of trying to allocate a scarce resource without using prices.

There is no end of nonsense to combat, and no end to the good that economists can do by combating it. Consider the blather surrounding the recent fad for "happiness" research. An ex-president of Harvard University has been going around saying that because incomes have risen over the past several decades while reported happiness has not, policymakers should concentrate less on income growth and more on things like leisure and environmental quality — ignoring the fact that over the period in question, leisure time and environmental quality have risen about as dramatically as income. Put aside all the legitimate questions about how to interpret self-reported happiness, and just focus on the sheer ignorance and/or illogic behind that interpretation. It's the basis of a great McCloskey-style true/false/uncertain question, and I like to think that if a younger Derek Bok had had the experience of working through some of those questions, the older Derek Bok would have avoided such public foolishness.

Even the best economists might have done even better if only they'd spent a little time with *The Applied Theory of Price*. Two of the smartest economists of my generation are Larry Summers and Paul Krugman. But just a couple of weeks ago, Summers argued in the Washington Post that because gas prices have fallen and consumption is up, the case for a carbon tax is enhanced. What a great true/false/uncertain question that is! I drew a few pictures and convinced myself the answer is false, or at best uncertain depending on whether externalities are increasing at the margin. Larry says it's true, but provides no argument.

We all, of course, make mistakes, and we all, of course, sometimes embarrass ourselves in public. But what's striking to me here is not that Summers appears to be mistaken, but that it seems never to have occurred to him that a conclusion requires an argument. That's exactly the core McCloskey message.

As for Krugman, there's so much more to choose from — but I'll resist temptation and limit myself to a single example. Krugman recently argued in print — and at length — that it never makes sense to cut just one government program, because, assuming expenditures are optimized to begin with, a marginal dollar is equally valuable wherever it's spent. Therefore, for small cuts it doesn't matter where you cut and for large cuts it's better to cut a little of everything instead a lot of one thing. He made this argument, of course, in the context of defending a particular program he did not want to see cut.

Of course exactly the same argument tells you that you should never raise taxes on just one segment of the population, but that's never stopped Krugman from lobbying for higher taxes on the rich. That's because, in his saner moments, he's willing to acknowledge that existing government policies might not, in fact, always be optimal — and that if they *were* always optimal, we wouldn't need the advice of pundits, or even Nobel laureates.

Here the fundamental error is failing to ask whether your argument proves too much (and therefore needs to be examined with renewed skepticism). This, too, I think, is the sort of error that you're less likely to make after a healthy dose of those T/F/U questions.

Here's another great T/F/U question: If Wal-Mart can be pressured to pay higher wages, wages will tend to rise elsewhere in the economy as well. A staggering number of journalists seems to believe this, presumably because it's never occurred to them that it's possible to *think* before pontificating. Higher wages (and hence higher prices) at Wal-Mart make the average worker poorer, thus increasing the supply of labor and lowering the equilibrium wage in the non-Wal-Mart sector (an effect that is magnified, of course, because Wal-Mart cuts back on hiring).

Of course the world abounds with examples of economic thoughtlessness, but I'll content myself with just one more. Journalists — even bright and thoughtful journalists like Michael Kinsley — frequently justify the taxation of capital income with an appeal to the principle that "everything ought to be taxed equally". If this were a true/false/uncertain question, a good answer would touch on at least the following points:

a) There is in fact no principle that "everything ought to be taxed equally", except insofar as the most efficient tax is one that taxes everything at a marginal rate of zero. Subject to the constraint that some taxes must be positive at the margin, the most efficient tax structure depends in complicated ways on a vast number of elasticities and cross-elasticities of demand and supply.

b) A tax on capital income is equivalent to a tax on current consumption combined with a higher tax on future consumption, and so cannot in any relevant sense be said to tax everything equally.

In fact, the best case *against* taxing capital income relies substantially on the observation that this is one of the few cases where there *is*, at least in the steady state, a case for taxing everything equally (not on general principles but because of the particular structure of this particular problem), which, in light of b), means that the tax on capital income should be zero.

Again, note the McCloskeyite themes: The notion of a general principle that "everything should be taxed equally" is pure blather, of exactly the sort that McCloskey warned us against at every turn. And if there *were* such a principle, it would still be incumbent on us to figure out *exactly what the principle entails* before jumping to any conclusions.

Incidentally, when I first worked my way through Chamley's pathbreaking paper on optimal capital taxation, I felt like I (barely) understood the math, but had acquired no feel at all for what drives the result. Only after much meditation was I able to tease out the intuition. More recently, it has come to appear (in the work of Werning, et. al.) that Chamley's math might not be exactly right. It's extremely important for someone to get that math right, because the process of getting it right can reveal new intuitions, or reveal limits to the old ones. But I repeat: The core intuition remains, and it's unlikely to go away.

In the end, what matters most is not the asymptotic convergence of a Lagrange multiplier, but the insight that a tax on capital is equivalent to an ever-increasing tax on consumption. This highlights one last central tenet of McCloskeyism: Formal arguments matter, because they can reveal great truths. But it's the great truths we really care about.

Thank you, Deirdre.