

CLA Publications

A blog for the [College of Liberal Arts](#).

A Golden History

By cla on June 24, 2008 9:29 PM

By Douglas Clement

Since its inception, the University's Economics Department has been home to experts and ideas that have garnered international recognition.

Ideas are the lifeblood of a university. And because many people can use the same idea simultaneously without decreasing its value for others, sharing ideas stimulates productivity. This concept of "endogenous growth" has been formalized by economists only recently--and some economists still debate its validity--but it is an apt description of the University of Minnesota's Department of Economics throughout its history: increasing returns through the generation and diffusion of ideas.

From its earliest years, when the University's president did double-duty as its only economics instructor, to the most recent class of graduate students, who wrote dissertations on topics as complex as dynamic optimal contracts, economics at the University has always been about ideas and the people who share them. The list--of both people and ideas--is extraordinary, and the history of the department is a remarkable tale of growth in knowledge.

The Early Years



The first economics instructor at the University was indeed its first president, William Watts Folwell (Left). His goal, according to the course description, was "to present clearly and fairly the history of the science and to thoroughly inculcate established principles." From the start, Folwell seemed to understand the importance of divergent outlooks in the discipline. "Conflicting views are brought out with all possible impartiality," he said.

The University's first economics Ph.D.--and one of the nation's first women to receive a doctorate in economics--was Hannah Robie Sewall in 1899. Like economics dissertations today, her thesis, a nuanced analysis of evolution in concepts of economic value prior to Adam Smith, was filled with Greek symbols. Unlike today's students, however, Sewall wasn't using Greek to build mathematical models. She was quoting

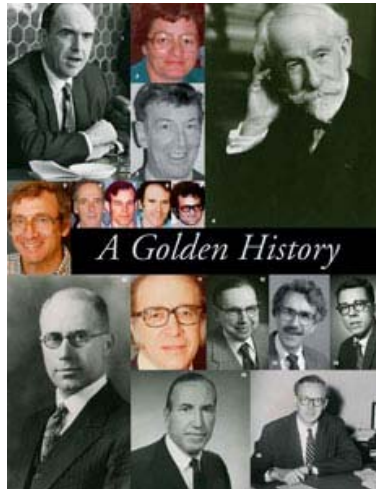
Aristotle in his native tongue.

In these early days, economics was part of the political science department, for at the time, the discipline was essentially the qualitative study of interactions between political and economic forces, rather than the rigorous mathematical treatment of production and exchange that economics later became. In 1913 economics became an independent department within the College of Science, Literature and the Arts, and all SLA majors took economics as a required subject. But in 1919 the economics faculty was merged with business education, becoming a unit within the newly formed School of Business. The resulting association endured for more than four decades.

Often referred to as "the American Keynes" and one of the nation's leading macroeconomists, Alvin H. Hansen was a key member of the faculty during this period before his departure for Harvard in 1937. His (and Sir John Hicks') IS-LM charts, which summarize relationships among investment, savings, liquidity preference and money supply, still tax the learning curves of economics undergrads today. Minnesota's close association with University of Chicago economics also began early: In the 1930s, George Stigler was a faculty member at the University, as was Milton Friedman briefly at the close of World War II.

Birth of a Department

After the war, student enrollment climbed at the University, and faculty numbers



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expanded in step. In 1946 after four years at the U.S. Treasury Department, Walter Heller arrived in Minneapolis, and Minnesota economics would never be the same again. "If you want the founding father of the Department of Economics," observes Jim Simler (Right), department chair from 1967 to 1991, "there's only one answer. It's Walter Heller." A skilled economist, Heller also had a keen eye for academic talent and an enviable gift of persuasion. By 1957 he had drawn together a faculty remarkable in both its quality and its breadth: John Turnbull, Andreas Papandreou (future Prime Minister of Greece), Oswald Brownlee, Harlan Smith, John Buttrick, Edward Coen, Franz Gehrels, John Chipman (Left), John Kareken (Right), Scott Maynes, Richard Savage and Frank Boddy.



But without one particular economist, Minnesota economics might never have coalesced. Heller's most significant recruiting coup was Leonid Hurwicz, a brilliant young economist hired in 1951. Hurwicz had worked at the University of Chicago's Cowles Commission with such giants as future



Nobel laureates Lawrence Klein, Tjalling Koopmans and Kenneth Arrow.

Heller and Hurwicz were an odd pair, with little in common other than a love of economics and mutual respect. But together they built the department. "You can hardly think of two people more different than Walter Heller and Leo Hurwicz," notes Simler. "Leo is foreign born, an immigrant. Walter was from Wisconsin. Walter was a man of the world; Leo was a scholar. Walter was a policy guy; Leo, a theorist. What a contrast, and yet it was just beautiful to watch these two people work together. I don't recall any serious disagreement between them."



Perhaps because of their different backgrounds, skills and temperaments, the two created a balanced core and a powerful identity for the economics faculty. In 1962 the economics department moved to the College of Liberal Arts, gradually building itself into one of the nation's top ten economics departments. "I don't want to say that all of the department's success owes to those two," says Simler of Heller's and Hurwicz's leadership. "But certainly a great, great deal. It was just truly remarkable what those two men were able to do."

James Heller and Hurwicz continued to make strong hires in the late 1950s, bringing in Martin Bronfenbrenner, Anne Krueger, Jim Simler and Ket Richter. Their Midas touch in cultivating the department continued well into the 1960s with the hire of George Perry, Henderson, Ed Foster (Right), Larry Sjaastad, John Hause, Herb Mohring (Right Bottom), Neil Wallace, Cliff Hildreth (Left Top), Craig Swan (Left bottom), Charles Freedman, Carlos Diaz-Alejandro, Hugo Sonnenschein and Tom Muench.



Raising Expectations

And then Washington called. In 1961 President Kennedy tapped Heller as chair of the Council of Economic Advisers, and from that position, Heller's influence extended across the globe. His policies were Keynesian--the active use of fiscal policy to stimulate the economy. And his positions were similar in many respects to those of his Minnesota predecessor, Alvin Hansen. But strong views on policy didn't signify intolerance of differing ideas, and faculty hires made after 1964, when Heller returned to campus as a professor, continued to show remarkable range. Another instrument of change was John Kareken, who pulled together a team to improve economic forecasting in the 1970s. It was then that the antithesis to Keynesian intervention took root at Minnesota.

In the first step of a continuing partnership with the Minneapolis Federal Reserve, Kareken's team--monetary theorist Neil Wallace, econometrician Chris Sims and macroeconomist Tom Sargent--began to build a better model to measure the impact of

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fiscal and monetary policy. But their research agenda was scrapped when they received Robert Lucas' seminal paper on rational expectations, which suggested that policy interventions are rendered ineffective because people anticipate--and counteract-- them.

The new paradigm revolutionized macroeconomic thought and clearly contradicted the theories held dear by Heller and others in the mainstream. But again, the diversity was welcomed, not resisted. "[Heller] may not have agreed with it," observes Simler, "but he respected it and did nothing to interfere with it."

In 1980 Ed Prescott joined the department. Sargent, Sims, Prescott and Wallace were (and remain) among the most prominent economists in the nation. They attracted talented faculty and graduate students eager to be on the cutting edge of macro theory. "They were known throughout the country," reflects Simler. "It was a busy time."

Other Schools

By the late 1970s Minnesota economics and rational expectations may have seemed synonymous to the outside world; but again, the University's faculty and students were far more diverse than that one prominent theory. Leo Hurwicz produced seminal work in mechanism design. John Chipman made important contributions to econometrics, international trade theory and welfare economics. Krueger taught and researched international trade and development before moving to the World Bank. Moring, Hause, Simler and Foster worked on different topics in applied microeconomics. Jim Jordan (Right), hired in 1977, was a dominant theorist in the department for two decades. Other longtime faculty hires of the 1970s included Mark Rosenzweig, Lung-Fei Lee, William Thomson, Takatoshi Ito, and Joel Slemrod. In the 1980s and 1990s, more key faculty hires arrived, including Patrick and Tim Kehoe, Andrew McLennan, Jan Werner, Ken Wolpin, Ed Green, John Geweke and Michael Keane. Growth in this era owed much to the even-keeled leadership of Jim Simler, who chaired the department for nearly a quarter of a century, leaving in 1991.

Richard Rogerson and V.V. Chari also joined the department in the 1990s. Nobuhiro Kiyotaki contributed novel insights into monetary theory, and Beth Allen, along with Andy McLennan, made headway on game theory, the systematic analysis of how economic actors respond to one another's actions. Tom Holmes joined the faculty in 1995, producing a stream of innovative work on industrial organization. Narayana Kocherlakota, an expert in monetary theory and public finance, came to Minnesota in 1998,* followed a year later by Larry Jones, a macroeconomic theorist, and Michele Boldrin, an authority in economic development and growth theory.

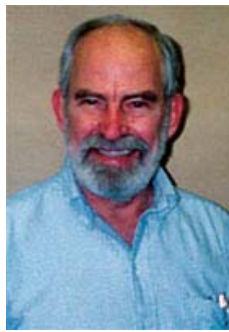
More hires in the current decade--Aldo Rustichini, Sam Kortum, Erzo Luttmer, Zvi Eckstein, Cristina Arellano, Pat Bajari and Fabrizio Perri--have built a wellrounded faculty of internationally recognized expertise in industrial organization, game theory, labor economics, international economics and financial economics.

Inevitable Change

Of course, not all faculty remain. Many gifted faculty members have left Minnesota. But Simler, who has seen more than his share of arrivals and departures, has a veteran's perspective on this churn. "You cannot expect the department, any department, to be peopled by the same people for a very long time," he says. "You have to expect change." In addition to the natural flux of an academic's career, universities are constantly competing for skilled professionals and making offers that can't be refused. Ed Foster, outgoing department chair, has witnessed the inevitable changes. "Our top faculty are every bit the equal of the best of the private universities, but those private schools have very deep pockets, and they have increasingly been willing to spend to keep their own faculty and raid ours," Foster says. "The pressure has been growing, and spreading-- spreading to more private schools that have decided that they need to be in the game, spreading to competing for graduate students as well as for faculty. We're being stretched very thin to hold on to our strongest people and to attract replacements."

Though staying at the top of its game is a constant challenge for the department, Simler reminds us that change is not always a negative. "Turnover is not a bad thing," observes Simler. "In a way, I think the department thrives on it. It gets new blood all the time." With new blood comes fresh ideas that bring further growth and reshape the landscape of economic thought.

Minnesota's tradition of "inculcating established principles ... [and presenting] conflicting views," as Folwell put it, leads to increased returns for students, faculty and economics itself. "So it's like the ocean; it just keeps regenerating itself," Simler adds. "The hallmark is change. But excellence remains."



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