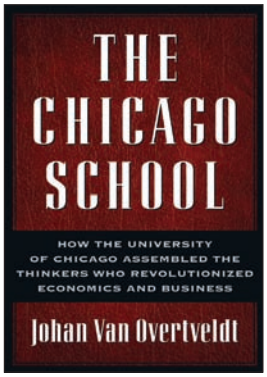

Sweetwater's Capitol

THE CHICAGO SCHOOL: HOW THE UNIVERSITY OF CHICAGO ASSEMBLED THE THINKERS WHO REVOLUTIONIZED ECONOMICS AND BUSINESS

BY JOHAN VAN OVERTVELDT

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REVIEWED BY AARON STEELMAN

Economists sometimes make the distinction between "Sweetwater" and "Saltwater" schools. The names come from the geographical locations of the universities and the economists who work at them. For instance, the Saltwater schools tend to be on the East or West Coasts, and include Harvard University, the Massachusetts Institute of Technology, and Stanford University. Saltwater economists often question whether consumers are really as rational and foresighted as standard neoclassical models suggest, tend to believe that market failure is relatively common, and hold that government intervention can sometimes help the economy perform more efficiently. Sweetwater economists, in contrast, tend to be located at universities near the Great Lakes (or the Middle Coast, as some call it). They generally believe that people act in their best interests and that, overall, markets do a fine job of allocating resources. State involvement, in their view, often is far more harmful than helpful. Leading Sweetwater schools include the University of Rochester, the University of Minnesota, and above all, in the public's mind and probably in most economists' as well, the University of Chicago.

In his new book, Johan Van Overtveldt, director of the Belgian think tank VKW Metena, aims to tell the story of how the Chicago School of Economics came to be — and the characteristics that have defined it over time and continue to define it today.

Overall, Van Overtveldt succeeds. He provides an informed, readable, and concise overview of the University of Chicago's contributions to economic science. It's clear that he has done his research — possessing an impressive command of the major articles, books, and texts produced by Chicago economists as well as having conducted more than 100 original interviews, many with the school's major figures. His account is clearly sympathetic but far from sycophantic.

One of the strengths of the book is that it does not treat the Chicago School as monolithic. Just as the Sweetwater versus Saltwater distinction is too simple — there are, for instance, many Sweetwater-oriented economists working at Saltwater schools and many Saltwater-oriented economics departments at Midwestern universities — the University of Chicago is not and has not been home to only doctrinaire free-market economists. The socialist Thorstein Veblen, author of *The Theory of the Leisure Class*, was arguably the first economist famously associated with the university. Henry Simons published a book during the Great Depression titled *A Positive Program for Laissez-Faire* that would hardly be recognized as such by today's profession (though, to be fair, at the time of writing, many of his ideas did seem distinctly pro-market). Lloyd Metzler, a prominent faculty member during the 1940s and 1950s, argued passionately for a generally Keynesian approach to macroeconomic analysis. And, today, Richard Thaler at the Graduate School of Business is one of the most important proponents of "behavioral economics," which questions the rationality assumption that has been so central to the work of many Chicago economists, including, of course, Milton Friedman and, especially, Gary Becker, who has used price theory to explain numerous aspects of human behavior once believed to be beyond economic analysis. In addition, Thaler, with Cass Sunstein of the Law School, has argued passionately for "libertarian paternalism," which other economists at the university have argued is a contradiction in terms.

Also, Van Overtveldt provides a strong argument that there really was no identifiable "Chicago School" until the 1950s. While many famous economists were associated with the university prior to then, it was the arrival of Friedman and, later, George Stigler that made Chicago stand out from its peers in its methodological and policy orientation. The addition of Becker and Richard Posner to the faculty in the late 1960s accelerated this trend. (Becker, it is important to point out, holds appointments with both the Departments of Economics and Sociology and Posner is at the Law School. The University of Chicago has a long tradition of multidisciplinarity, and the work of its economists is no exception.)

Van Overtveldt is to be applauded also for providing useful overviews of less widely known but eminent figures in the Chicago tradition, including Aaron Director, Sherwin Rosen, Eugene Fama, and Arnold Harberger — whose work in the economics of law, labor, financial markets, and public finance, respectively, did much to advance a generally free-market approach to those fields. (While it is correct, as Van Overtveldt points out, that not all Chicago economists have been ardent supporters of relatively unfettered markets, there is certainly more than a little truth to the belief that a large share has held that orientation.) In short, for those who wish to find out what has made economics at the University of Chicago unique and important — and it is undoubtedly both, with the university having produced a widely disproportionate number of winners of the Nobel Prize, the John Bates Clark Medal, and the Francis A. Walker Medal (now defunct) — Van Overtveldt's book is the best single source currently available. **RF**