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Economics in and around Hyde Park

I have been fortunate in my professional life to have been able to hang in close proximity to some very smart (and nice) people, mainly at Princeton and the University of Chicago. They are household names within economics, have been advisers to presidents and other government leaders, and include several Nobel laureates. But it is the academic contributions of my Hyde Park colleagues that stand out and I hope will be of interest to *Chicago Life* readers.

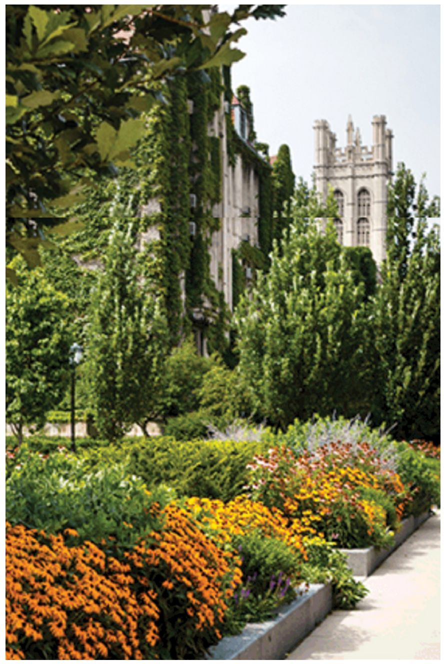
BY ALLEN R. SANDERSON

Heading up that roster would be **Milton Friedman**. As my late colleague and friend Sherwin Rosen, was fond of saying: "Everyone around here is smart. It's just that Milton was smarter than everyone else." Known widely for his 1962 treatise *Capitalism and Freedom* and the 1980 volume and 10-part PBS series "Free to Choose" with wife and fellow economist Rose Friedman, Milton's research on macroeconomics, monetary policy, and the role played by the Federal Reserve System in causing and prolonging the Great Depression in the 1930s brought him scholarly recognition and the 1976 Nobel prize in economics.

Established in 2011, the Becker Friedman Institute on campus, named in honor of Milton Friedman and his student and colleague **Gary Becker**, provides a research hub in economics.

(One might argue that the BFI, as it is known informally, might have listed Milton first, but that would then have been the 'FBI,' and thus a non-starter. Either way, Milton and Gary were the giants among giants.)

Gary burst onto the scene as an intellectual heavyweight with his 1957 doctoral dissertation, the Economics of Discrimination, which treated and analyzed employer-based discrimination and wage rates as they relate to the degree of competition in labor and product markets. In the 1960s his research interests shifted to the relatively new field of Human Capital with his



colleague agricultural economist **Theodore W. Schultz**; both would become recipients of the Nobel prize down the road.

What would have constituted an outstanding career by then for a mere mortal, Gary was just getting warmed up. He extended his forays into rational choice theory, human behavior, and economic man to include other social sciences with the Economics of Crime, Time, Marriage, Fertility, the Family, and Marriage.

Sherwin Rosen extended traditional labor theory to include two important topics in today's markets: Compensating (wage) Differentials; and the Economics of Superstars. With regard to the former, Sherwin analyzed variations in wage rates that included payments or benefits designed to equalize or compensate for non-monetary aspects of a job—bad working conditions, unattractive work schedules, risks of being laid off (or, on the other hand, perceived prestige or other benefits of some jobs that would mean a worker would be willing to accept a lower wage if the position were quite desirable).

A small number of Superstars in certain professions – the world of sports, movie stars, pop artists – earn enormous amounts of money. Think LeBron James, George Clooney, Taylor Swift. What is it about them, the structure of their industry, or other technological aspects that carve out enormous earnings for those who are arguably better, but in some cases only a small bit better, than their peers? According to Rosen, technological advances in communications in the modern world have dramatically increased the size of potential audiences or markets and allowed the best to get a larger share of the total revenue. If it costs the same to feature the best performer relative to the slightly inferior one, the spoils will stay with the best. In most occupations this opportunity to enlarge the market – think barbers and plumbers – is simply not an option.

"The Peltzman effect." Named for my business school colleague and friend, **Sam Peltzman**. When we take safety measures—think the mandatory use of seat belts—people's risk perception decreases and they may drive faster, less carefully, with a drink or two beforehand, and are thus less safe. Ditto for drivers with air bags. Owing to their modest cost, seat belts are likely to pass a benefit-cost test; it's not obvious with air bags, especially for those already belted in.

Other friends and colleagues I have benefited from associating with and learning from also deserve mention. They also have made significant advances in the field, and these contributions are accessible and should be of interest to intelligent lay audiences. Three stand out: **George Stigler** (information and regulation), **Eugene Fama** (investing and financial markets), and **Ronald Coase** (the generic category of "externalities" and pollution, environmental decay, and harm to others).

Closing with a bit of Berra-like humor: One of the truly "good guys" who deserves a place on this list. He passed away last fall is long-time Hyde Parker and economist **Lester Telser**. His first name is an anagram of his surname. ❑