BUILDING CHICAGO ECONOMICS

Over the past forty years, economists associated with the University of Chicago have won more than one-third of the Nobel Prizes awarded in their discipline and have been major influences on American public policy. *Building Chicago Economics* presents the first collective attempt by social science historians to chart the rise and development of the Chicago School during the decades that followed the Second World War. Drawing on new research in published and archival sources, contributors examine the people, institutions, and ideas that established the foundations for the success of Chicago economics and thereby positioned it as a powerful and controversial force in American political and intellectual life.

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Building Chicago Economics

New Perspectives on the History of America's Most Powerful Economics Program

Edited by

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Blueprints

Robert Van Horn, Philip Mirowski, and Thomas A. Stapleford

When the University of Chicago announced in May 2008 that it was establishing the Milton Friedman Institute for Research in Economics (MFI), it provoked an intense campus debate that soon spread to the national media. More than one hundred tenured faculty members signed a petition protesting the university's plans, while economists and other scholars unaffiliated with Chicago argued about the propriety of the university's actions in an atmosphere fraught with emotion.[1]

Official descriptions of the MFI emphasize generic objectives (e.g., "creating a highly collaborative intellectual environment") that would seem to belie such controversy.[2] Like other interdisciplinary research institutes, the MFI will serve as a venue where visiting scholars and postdoctoral fellows can collaborate and debate with university faculty – in this case, members of the University of Chicago Law School, the Department of Economics, and the Booth School of Business. Furthermore, the MFI will strive to educate the general public about economic research through lectures, conferences, and online publications.

Hostile reactions to the MFI, of course, owed less to these general features than to its funding structure and its connection to Milton Friedman, whose vocal advocacy of neoliberal economic policies has made him a polarizing figure. (When Friedman was selected for the Nobel Prize in economics, for example, two other Nobel laureates – George Wald and Linus

[1] See Patricia Cohen, "On Chicago Campus, Milton Friedman's Legacy of Controversy Continues," *New York Times*, July 12, 2008, p. 9, subsection B; Marshall Sahlins, "Institute Will Give the U. of Chicago a Bad Name." *Chronicle of Higher Education*, Aug. 18, 2008; Kari Lydersen, "University's Plans for Milton Friedman Institute Spark Outcry," *The Washington Post*, August 28, 2008; and David Glen, "At U. of Chicago, Dispute over Friedman Center Continues to Simmer," *Chronicle of Higher Education*, October 31, 2008.

[2] Cf. the official MFI Web site: http://mfi.uchicago.edu/about/index.shtml.

Pauling – accused him of being an accessory to human rights abuses in Latin America.)[3] By naming the proposed institute after Friedman, the university appeared to be reifying, even formally supporting, its longstanding association with the so-called Chicago School of economics – a cluster of methods, economic principles, and free-market ideology promulgated primarily by Friedman and his colleagues and students. This symbolic connection was reinforced by certain statements in the initial proposal, including the declaration that proper "evaluation of economic policies" must consider "the essential role of markets," and the claim that Friedman had "demonstrated" how the "design of public policy without regard to market alternatives has adverse social consequences."[4] Moreover, the funding mechanism for the MFI raised additional questions about its intellectual independence: The university announced that it would seek $200 million in private donations to endow the institute – an extraordinary sum for a social science institute. Donors who contributed $1 million or more each would be granted membership in the Milton Friedman Society and access to a private annual conference. In light of these features, critics argued that this lavishly funded institute would serve to bolster neoliberal defenses of free-market capitalism while supporting the views of wealthy elites. Proponents denied any ideological motives for the institute, contending that the MFI would nurture high-quality economic and social research and thereby ensure a strong and long future for Chicago economics.

The public outcry over the MFI illustrates how the doctrines and legacy of the Chicago School of economics remain controversial. (Indeed, that status has been reinforced by the recent financial upheaval, as many moderate and left-wing Americans have blamed the crisis on the very kinds of deregulation and free-market policies that have long been associated with Chicago.)[5] Yet the public debate over the MFI has also revealed how little most Americans (including economists) know about the history of the Chicago School, and in turn how ill-prepared they are to analyze the ties between institutional structures, political conditions, and theoretical development in economics. Although critics of the MFI have warned that the

3 See George Wald and Linus Pauling, "The Laureate," Letter to the Editor, *New York Times*, October 24, 1976, p. 166.

4 The original proposal has been removed from the MFI Web site. This quotation can be found in the online petition created by the "Committee for Open Research on Economy and Society," an offshoot of the original group of faculty who protested the MFI. http://www.miltonfriedmancores.org/cores/petition/

5 Stephen R. Strahler, "U of C Loses its Place," *Chicago Business*, Nov. 15, 2008, http://www.chicagobusiness.com/cgi-bin/news.pl?id=31838; Michael Fitzgerald, "Chicago Schooled," *University of Chicago Magazine*, 102, no. 1(2009): 32–37.

university is embarking on a novel institutional innovation, the institute actually employs elements that have been integral to the history of economics research at Chicago. Research institutes, corporate funds, cross-disciplinary ventures, recruiting young promising researchers, general public education, and business-academe relationships were all crucial to the postwar trajectory of Chicago economics. The Chicago School was not the product of the "spontaneous order" of the free market often lauded by its members; it was constructed, quite deliberately, for specific ends.

The architects of the Chicago School have been extremely successful. From 1969 to 2009, twenty-six of sixty-four Nobel Prizes in economics have been awarded to faculty members, researchers, or students of the University of Chicago's Department of Economics.[6] Equally important, many observers have tied the school to the rise of a right-wing orthodoxy in the American political scene starting in the 1980s, and politicians such as Ronald Reagan, Margaret Thatcher, and George W. Bush have been effusive in their praise of members of the school as informing their own policies (Klein 2008; Harvey 2005; Galbraith 2009; Peck this volume). Despite this prominence, however, the Chicago School has received relatively little concerted attention from historians.[7] Most popular accounts of postwar Chicago economics (such as Johan van Overtveldt 2007) rely largely on an "oral tradition" created by past members and eschew a balanced engagement with archival and secondary sources. *Building Chicago Economics* offers the first collective attempt by historians to chart the rise and development of the postwar Chicago School.

In selecting essays for this volume, we chose to focus on what might be called the "incubation period" of the postwar Chicago School (roughly 1940–1965), a time when the Chicago approach remained a minority position within the profession as a whole. The three subsequent decades witnessed the flourishing of Chicago economics, marked by a series of major publications and events including the growing popularity of Friedman's monetarism, the first publication of Eugene Fama's efficient market hypothesis (1965), the arrival of Gary Becker (1968), the spread of Chicago law and economics, and the emergence of a rational expectations approach to macroeconomics modeled on the work of Robert Lucas. Although we recognize how deeply these later developments have become associated with Chicago in the public imagination, we have nonetheless kept our attention on the leading figures of the first generation – men such as Friedman,

[6] "Nobel Laureates," http://www.uchicago.edu/about/accolades/nobel/. Access date: 5/30/10.
[7] Beyond this volume, see Warren Samuels (1976) and Emmett (2010).

Stigler, Director, Hayek, and Schultz – those who laid the foundation for the postwar school.

Our emphasis on the earlier period derives from two factors. First, there is already a significant body of literature documenting the later, public rise of the Chicago School, including studies of monetarism (Laidler 1999, 2006; Leeson 1998, 2000; Hirsch and deMarchi, 1990; Mehrling, 2002), the rational expectations movement (Hoover 1990, 1999; Sent 1998; Snowdon and Vane 2005), and the revolution in financial theory (Bernstein 1992; Mehrling 2005; MacKenzie 2006; Vane and Mulhearn 2009). Undoubtedly, the recent economic crisis will prompt scholars to reconsider the more triumphal aspects of some of these narratives; yet that process of reflection has only just begun. By contrast, an exciting new body of work on the first generation of postwar Chicago – often based on close studies of new archival evidence – has now reached a point of maturity. It was our goal as editors to gather some of this work together and present it in an integrated volume.

Second, it is our conviction that the early years of the postwar era provided a crucial basis for Chicago's later success. It was here – in the methodological approaches that the first generation of Chicago economists adopted, in the objectives that they set, in the institutional structures that they established, in the pedagogy that they developed – that the Chicago School was built. This conviction has led our contributors to emphasize the practice of Chicago economics, and not merely the content of its conclusions. It has also shaped the contours of the volume, leading, for example, to a greater focus on Chicago microeconomics, because even Chicago's approach to macroeconomic analysis is famously grounded in its distinctive microeconomic views. It is our belief, therefore, that this analysis of postwar Chicago economics illuminates both the past and the present, highlighting institutional structures and ideas that continue to have a profound effect on both American economics and American economic policy more than half a century later.

The Postwar Foundations of Chicago Economics

Drawing on new research into archival and published sources, *Building Chicago Economics* is simultaneously a project of excavation and reconstruction: excavation of institutional and intellectual aspects of Chicago economics that have hitherto seen little study and reconstruction of a new historical perspective on the foundations of the postwar Chicago School. In the process, our volume emphasizes four major themes.

First, the early leaders of the postwar Chicago School were not cloistered academics, but empire builders who set up or forged influential relationships with well-funded institutional organizations in order to provide vital support structures for the creation, incubation, and propagation of their ideas.[8] Several chapters in our volume explore the empire-building strategies of key figures such as Friedrich Hayek, Theodore Schultz, and George Stigler. In the process, these chapters uncover the novel institutional foundations that bolstered the later success of the Chicago program.

Second, the ideas of the postwar Chicago School did not remain unchanged over time; on the contrary, the views of its principal members sometimes underwent radical shifts. As our volume demonstrates, for example, the founders of the postwar Chicago School (including Friedman, Stigler, and Aaron Director) departed quite sharply from the classical liberalism that had animated their mentors at the university, such as Frank Knight and Henry Simons. Moreover, even during the postwar era itself, Chicago economists differed among themselves as they developed their views on economic theory and policy in response to a changing political and institutional environment.

Third, beginning at least in the 1930s, the leaders of postwar Chicago economics sought to construct an economics built for policy. Contrary to conventional wisdom, the policy applications of Chicago economics were not accidental byproducts of a research program focused primarily on the internal development of economic theory. Nor did these applications arise spontaneously from a well-established and uncontroversial theoretical core (a role often ascribed to Chicago price theory).[9] Instead, the trajectory ran in the opposite direction: Chicago economists constructed a form of economic knowledge (and a matching training program for graduate students) designed to make economics successful as an applied discipline and to allow it to colonize other domains, such as legal theory and political science.

Fourth, understanding the growth of the Chicago School requires a nuanced consideration of the relationship between political ideology and economic knowledge. Our contributors take a variety of positions on this

[8] Friedman himself attests to the importance of a well-funded institutional structure for the rise of the Chicago School: "For advocacy of capitalism to mean anything, the proponents must be able to finance their cause.… Radical movements in capitalist societies … have typically been supported by a few wealthy individuals" (1962, 17).

[9] For historical accounts that make this error, see Johan van Overtveldt (2007), Richard Posner (1978), and – albeit to a lesser extent – Neil Duxbury (1995).

controversial question: Several of our authors tie Chicago to a broader program of neoliberalism whereas others disagree, emphasizing a wider range of epistemological commitments and convictions that proved equally or more formative than neoliberalism per se. We devote the last section of the volume to an explicit discussion of these issues, but the theme runs through many of the volume's other essays as well, giving readers a rich and complex set of perspectives through which to assess what has become the most central question for any analysis of Chicago economics.

The Layout

The opening "Orientation" by Jamie Peck provides an overview of the Chicago School from the interwar period to the Reagan era and charts the sinuous path of its development. He explains how Chicago economics moved from Simons's "A Positive Program for Laissez-Faire" (1934), which contained his notorious nationalization scheme, to Friedman's *Capitalism and Freedom* (1962), which Reagan sported on his campaign trail and which called for, contra Simons, the privatization of state-controlled industries and institutions. Amidst the "Reagan revolution" of the 1980s, the doctrinal principles and policy prescriptions of the Chicago School had their heyday in American politics.

Part I, Economics Built for Policy, examines how Chicago's most celebrated and criticized figure, Milton Friedman, understood the "scientific" nature of economic research and its relationship to public policy. Chapter 1, by Thomas A. Stapleford, explores the links between Milton Friedman and the tradition of institutional economics at the National Bureau of Economic Research, highlighting their common goal of creating a new form of economics that could have an extensive role in democratic policy making. Stapleford demonstrates that this objective entailed several other methodological commitments – including the belief that history could be a predictive science – that shaped the culture of the Chicago School and its relationship with other groups. Chapter 2, by Dan Hammond, considers why Friedman became such a controversial figure. Comparing the development of Friedman's empirical methodology and neoliberal policy positions to those of John Kenneth Galbraith and Paul Samuelson, Hammond argues that criticism of Friedman owed more to the left-wing character of American academia than to Friedman's political activism per se.

Part II turns to the institutional construction of the Chicago School. The creators of the MFI understood that influential schools of thought in economics do not simply spring forth from the head of Athena. On the contrary, thoughtful institutional design and munificent monetary contributions were prerequisites for Chicago's success in the postwar period. The chapters in this section examine three critical but understudied institutional components of the postwar Chicago School.

In Chapter 3, Paul Burnett provides the first archival-based analysis of the work of Theodore Schultz. Burnett details how Schultz, through his fundraising acumen, his careful self-fashioning, and his research network in agriculture economics, not only developed University of Chicago–based research programs in agriculture economics and economic development, but also forged an influential blueprint for postwar U.S. agriculture policy. In Chapter 4, Ross B. Emmett demonstrates that Schultz and his colleagues consciously integrated faculty research and graduate education in ways that reinforced Chicago's view of economics as an applied policy science. The requirement that graduate students participate in department "workshops" fostered a scientific environment in which the analytical tools of price theory and statistics were applied to a variety of policy issues. This system, Emmett argues, laid the foundation for the Chicago School's eventual trademark mode of economic analysis. In Chapter 5, Edward Nik-Khah examines an often-overlooked pillar of the Chicago School, the Graduate School of Business (GSB). According to Nik-Khah, George Stigler used his entrepreneurial talent to reshape the research program of the GSB and buttress it with well-funded institutions that reflected and advanced his own beliefs.

The Chicago School is famous not merely for its contributions to economics per se, but for its attempt to apply economic methodology to a range of problems and disciplines outside its traditional scope, a process aptly dubbed "economics imperialism." In Part III, we take up two understudied and divergent strands of this imperial project. The first, "Law and Economics," examines a classic and widely influential imperialist expansion. The traditional story claims that Chicago economists, through the perspicacious use of an accepted price theory tradition, illuminated legal issues. In Chapter 6, Steve Medema challenges this claim by undermining one of its central assumptions, that price theory existed in a monolithic form at Chicago and that the principal Chicago economists all accepted this form. Medema claims that two different versions of price theory existed at Chicago prior to 1970, and that each version propelled a movement in Chicago law and economics, an "old" and a "new." Medema fleshes out the price theory structure on which each movement depended, claiming that old Chicago law and economics thus significantly differed from new Chicago law and economics. In Chapter 7, Robert Van Horn and Matthias

Klaes examine the Chicago School and its understanding of patent law, one area of law on which Chicago economists have exerted a considerable influence. By primarily focusing on the immediate postwar period, from 1946 through the mid-1950s, they show how Chicago economists moved from a broad hostility toward patents to a broad acceptance of patents in the course of their effort to create a more robust form of liberalism.

Imperialism, however, involves something more than conquest; it is equally characterized by colonial appropriation: the extraction of resources for use (and transformation) in the homeland. The next two chapters of Part III examine colonial appropriation by the Chicago School: the application (and great simplification) of concepts from evolutionary biology to the analysis of markets. The relationship of neoclassical economics to the natural sciences has been preoccupied with physics, which provided the original template (Mirowski 1989). However, in the case of the Chicago School, an argument can be made that biology was much more important. In Chapter 8, Jack Vromen argues that although Gordon Tullock, Gary Becker, and Jack Hirshleifer presented their "bioeconomics" as a mutually beneficial two-way transfer of ideas, concepts, and approaches between biology and economics, they were more interested in showing that the constrained maximization framework used by economists was superior to the prevailing explanatory framework in biology. In Chapter 9, Philip Mirowski claims that Hayek, Friedman, and Armen Alchian all differed on their understandings of evolution, and that this may have been part of the reason why their references to "science" took somewhat longer to catch on within the economics profession.

The relationship between political ideology and economics has been the most controversial aspect of the Chicago School's history. In Part IV, we close the volume by considering whether postwar Chicago economics can be aptly characterized as "neoliberal." In Chapter 10, Van Horn builds on his previous studies of Chicago neoliberalism by contrasting Jacob Viner's conception of concentrated power with that of postwar Chicago economists. Van Horn argues that Viner should be understood as a critic of the neoliberalism exemplified by Chicago research projects during the 1950s and 1960s, and that Viner's disagreement with his former colleagues stemmed for his adherence to classical liberalism. In Chapter 11, however, intellectual historian Bruce Caldwell challenges the classification of the Chicago School as neoliberal, focusing his attention on a recent publication from Van Horn and Mirowski (2009). Caldwell claims that this categorization is flawed and contends that Van Horn and Mirowski misconstrue the role of figures (e.g., F. A. Hayek and the Volker Fund) central to the formation of the Chicago School. In Chapter 12, Beatrice Cherrier brings a different perspective in her analysis of one of the most controversial figures in the Chicago School: Milton Friedman. Cherrier contends that the consistency between Friedman's science and politics arose from his steadfast adherence to a more fundamental "worldview" that undergirded both his methodology and his political outlook. Thus, Cherrier denies that Friedman's approach to economics was strictly a product of any political ideology (such as neoliberalism), instead tracing both to deeper, interlocking principles. Finally, Edward Nik-Khah brings the debate about neoliberalism up to the present day by examining the Milton Friedman Institute. He explores how the history of Chicago neoliberalism may be used to better understand the MFI and its surrounding controversy, thereby suggesting that the rise of Chicago neoliberalism in the postwar era continues to shape and define the development of economics at Chicago.

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Orientation: In Search of the Chicago School

Jamie Peck

January 29, 2007, was Milton Friedman Day in Chicago. The city council's formal resolution, signed by Mayor Daley, called on "the citizens of our great city to observe this day with appropriate ceremonies and activities that honor the significant contributions that Milton Friedman has made to our nation." The renowned free-market economist, who had died a few weeks earlier, was honored at a memorial service at the University of Chicago featuring, among others, fellow Nobel laureate Gary Becker, president of the Czech Republic, Václav Klaus, and chairman emeritus of the Chicago Mercantile Exchange, Leo Melamed. As the City of Chicago's resolution summarized Friedman's contribution:

> It was here … that Friedman … synthesize[d] his theories of economics, based on the idea that government should be kept small and spending should be kept low.… Though his embrace of free-market economics was very unpopular at the time, Friedman was tireless in championing his ideas. He knew that [the] free market was the answer, not only to allowing broad prosperity, but also to enduring political freedom.… "The society that puts equality before freedom will end up with neither," Professor Friedman once wrote. "The society that puts freedom before equality will end up with a great measure of both." … Today, most nations in the world embrace the free-market precepts he espoused and popularized.… Milton Friedman's work, which began here at the University of Chicago, has served to advance America's economy … and spread the economic, political and social benefits of free-market economics throughout the world.[1]

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[1] City of Chicago (2006) Declaration of January 29, 2007 as 'Milton Friedman Day' in Chicago, Agreed Calendar, 90577, November 1. Accessed at www.chicityclerk.com/citycouncil/journals/.

Friedman was remembered by President George W. Bush as a "revolutionary thinker [whose] bold ideas … serve as the foundation of many of America's most successful government reforms."[2] Portrayed in the *New York Times* as the "grandmaster of free-market economic theory and a prime force in the movement of nations to less government," Friedman was credited with building the Chicago School of economics into a "counterforce" to Keynesian hegemony and its East Coast strongholds like Harvard and MIT (Noble 2006). However, Friedman's iconoclastic contribution was not simply to mount a challenge to Keynesianism, renowned conservative economist (and former student) Samuel Brittan (2006, 13) wrote in the *Financial Times*, because in the final analysis "to some extent [he] supplanted it." Friedman had done so both as a remarkable "economic scientist" and as a skilled public intellectual, whose contributions had already been placed, by friends and foes alike, on a par with those of Keynes himself (see Galbraith 1987; Walters 1987; Warsh 1993; Hammond, this volume).

The thirty-year war that Friedman and his colleagues waged against the Keynesian intellectual occupation began in earnest in the mid-1940s, reaching its moment of vindication in the mid-1970s. The beginning of Chicago's unrivalled dominance of the Nobel Prize for economics can be dated to this moment, but more fundamentally, it also marked onset of the long-anticipated Keynesian nightmare of stagflation. In the space of a few years, Chicago transitioned from the status of a belligerent outpost of free-market dissent to one of the embryonic sites of the neoliberal project, becoming a source of unambiguous "advice" for political leaders in Chile, Britain, the United States, and elsewhere (see Yergin and Stanislaw 1998; Harvey 2005; Klein 2007). Like its Keynesian predecessor, the free-market doctrine of the Chicago School eventually achieved traction during a period of crisis, though its gestation had been a long one (Robinson 1972; Nik-Khah, this volume, Chapter 13).

Friedman himself recognized that these crisis conditions were decisive, simultaneously delegitimizing the faltering Keynesian orthodoxy while prompting an urgent search for new approaches. In this context,

> a major change in social and economic policy is preceded by a shift in the climate of intellectual opinion, itself generated, at least in part, by contemporaneous social, political, and economic circumstances. This shift may begin in one country but, if it proves lasting, ultimately spreads worldwide.… All in all, the force of ideas, propelled by the pressure of events, is no respecter of geography or ideology or party label. (Friedman and Friedman 1988, 455, 466)

[2] Accessed at http://www.friedmanfoundation.org/friedman/friedmans/statementworld.jsp.

In a wide range of accounts, from the self-congratulatory to the scathingly critical, the Chicago School of economics is designated as having a decisive role in this process of intellectual contestation and succession, first as a bastion of opposition to statism and Keynesianism, and subsequently as the birthplace of a rejuvenated form of free-market economics. In Naomi Klein's (2007, 53) rendering, the Chicago School represents the epicenter of an historic process of "capitalist Reformation," with the 1970s experiment in Chile serving as an offshore "laissez-faire laboratory" for the restoration of a purified market order. Here, the Chicago School itself is endowed with remarkable purposive capacity, with Friedman ("Dr. Shock") as the principal protagonist. Orthodox and sympathetic historiographies, in contrast, eschew the conspiratorial undertones in favor of heroic narratives of scientific contestation and transformation, culminating in the righteous defeat of flawed Keynesian formulations and the revelation of enduring economic truths. Echoing Klein, the language of crusades is often invoked (minus the connotations of blind faith and fundamentalism). Johan Van Overtveldt's (2007, 1) comprehensive history of the Hyde Park revolution, for example, begins with the observation that "Chicago is both a Mecca and a Rome for economic science," with due deference to the immaculate lineage: "If Adam Smith is the father of the dismal science called economics, then Chicago is arguably its capital."

But why *Chicago?* Friedman was, according to financier Leo Melamed, "one of Chicago's most treasured icons."[3] Yet beyond the well-attended memorial service and pulses of activity on conservative blogs and on the Web site of the Heartland Institute, the Chicago-based free-market think tank, Milton Friedman Day passed almost entirely without incident in the Windy City. That, locally, this should be a borderline nonevent is curiously fitting. Friedman always had an ambivalent relationship with the city that was his intellectual home for three decades. And like most of his colleagues, he was never entirely comfortable with the Chicago School moniker. "To economists the world over," Friedman (1974, 11) once remarked, "'Chicago' designates not a city, not even a University, but a 'school'" – an apt observation, in many ways, for a public intellectual who may have been at Chicago, but was never *of* Chicago. As he would later claim, the free-market project would probably never have been hatched had its originators been located in New York City rather than Chicago. Can this be true?

[3] Accessed at http://www.friedmanfoundation.org/friedman/friedmans/statementworld.jsp.

Roots

Milton Friedman went to Chicago in the fall of 1932 to enter graduate school, his first time west of the Delaware River. If he left Rutgers as a frustrated insurance actuary, he arrived in Chicago an economist. A talented mathematician, as an undergraduate Friedman was converted to economics by two of his instructors at Rutgers, Homer Jones and Arthur Burns, who at the time were enrolled in the graduate programs at Chicago and Columbia respectively. Burns, who went on to chair the Federal Reserve through the turbulent 1970s, would become a lifelong friend and mentor to Friedman; but it was the Iowa farm boy, Homer Jones, who introduced the impressionable young statistician to "what even then was known as the Chicago view" (Friedman and Friedman 1998, 32). Jones's advisor, Frank Knight, epitomized this view at the time, combining a passionate defense of individual freedoms with mordant skepticism (by some accounts, bordering on nihilism) with regard to government regulation and social intervention. Young Milton may have been many things, but a nihilist he was not. On the contrary, he was attracted to economics as an empirical, problem-solving science (see Stapleford, this volume):

> I graduated from college in 1932, when the United States was at the bottom of the deepest recession in its history before or since. The dominant problem of the time was economics. How to get out of the depression? How to reduce unemployment? What explained the paradox of great need on the one hand and unused resources on the other? Under the circumstances, becoming an economist seemed more relevant to the burning issues of the day than becoming an applied mathematician or an actuary. (Friedman 2004, 69–70)

At Chicago, Friedman was soon learning life-changing lessons in both in the discipline of Economics and in the daily realities of economics. He found part-time employment as a waiter – paying one meal a day, plus board – but even after securing a second job in a shoe store, he was unable to pay his own way without borrowing from family members. In the economics department, meanwhile, the mandatory, right-of-passage class in price theory, Economics 301, yielded revelations of a quite different kind. (For the significance of price theory for the later development of Chicago law and economics, see Medema this volume.) Taught by the department's other "star" professor, Jacob Viner, Econ 301 "opened up a new world" for Friedman (2004, 70), convincing him that "economic theory was a coherent, logical whole that held together, that didn't consist simply of a set of disjointed propositions." An intimidating and unforgiving teacher, who George Stigler (1988, 19) would later characterize as "the stern disciplinarian" of price theory, Viner had his students sit in alphabetically ordered rows, which placed Friedman next to Rose Director, the younger sister of one of the faculty, Aaron Director, and a research assistant of Knight's. Rose was to become Friedman's wife and lifelong collaborator. Her brother, after a period in Washington, DC, would return to Chicago as a founder of what would become known as the law and economics movement. In the same year, 1946, Friedman was appointed to a faculty position in Chicago (following spells in New York, Washington, DC, Wisconsin, and Minnesota), signifying the emergence of the Chicago School *qua* school.

Although much is often made of the long conservative tradition in Chicago economics dating back to the founding of the program in the 1890s, this was a necessary, but far from sufficient condition for the mid-1940s reboot of the Chicago School, which within a few years constituted "the strongest group of free market economists not only in the country but in the world at this time" (Friedman 1976, 23). Half a century earlier, when the department was founded, Chicago had been the "storm center" of roiling conflicts between the East Coast industrial and intellectual establishment and the upstart west. One prominent commentator adjudged "the chasm between capital and labor [to be] deeper and broader in Chicago than anywhere else in the country" (Lyman Abbott, quoted in Coats 1963, 488). Into this fray stepped the first president of the University of Chicago, William Rainey Harper, whose aggressive hiring policy was already fueling a climate of resentment and suspicion around what critics liked to call Standard Oil University. Determined to build his new university on a "grand scale," Harper recruited research stars from the Ivy League, paying high salaries but requiring them to live "the life of frontiersmen … isolated from the rest of the country in a venture which had no past" (Shils 1991, x). This was a "new university located on the outskirts of a new city," which to some seemed to embody "all the tensions, uncertainties, and hopes of America in the new century" (Emmett 2002a, xvii). The formation of the University of Chicago as a private institution in a "new" city represented what Friedman (1974, 15) later characterized as a *tabular rasa*, because there was "no dead wood to be eliminated, no vested interests to be rooted out." Moreover, in contrast to the great public universities of the Midwest, it was free from the "inevitable entanglements with state government" (Kitch 1998, 228). As a result, Chicago became a place of robust intellectual independence, never "trucking in vulgar opinion," and riding out the political storms of the first half of the twentieth century as if securely moored in a "sheltered inland sea" (Shils 1991, xv).

Armed with deep reserves of Rockefeller money, Harper courted controversy by appointing the outspoken and doctrinaire J. Laurence Laughlin, "one of the most conservative economists in the country" (Coats 1963, 489), to chair his new department of political economy. If Laughlin's partisan reputation appeared to confirm received views of Chicago as a conservative redoubt, however, the new chair did not simply move to construct a department in his own image. Instead, he embraced the principles of robust heterodoxy and academic freedom, recruiting institutionalists like Thorstein Veblen and John Maurice Clark, among others. If there was a "school-like" economics program at the time, this was a much more fitting description of the progressive institutionalism of neighboring Wisconsin under the influence of Ely and Commons, with which Chicago was often less than favorably compared (Lampman 1993). Chicago, in contrast epitomized an early form of economic heterodoxy.

On his retirement in 1916, Laughlin's faculty line was filled by Jacob Viner, who would later be joined by Frank Knight; they would come to be regarded as the dominant intellectual forces in the department. However, if this reflected an incipient "Chicago tradition," it had more to do with a commitment to vigorous intellectual individualism than it did some programmatic or monocultural conservatism. Although Knight and Viner are sometimes credited with the distinction of cofounding the Chicago School, or even of establishing a "first" Chicago School (see Bronfenbrenner 1962; Formaini 2002; Sally 1997), they had very different personal styles and did not always see eye to eye. Viner's students never constituted a "club." In contrast, several of Knight's former students maintained "affinities" that would be crucial to the establishment of the Chicago School proper after the Second World War, even though Knight himself played little or no direct role in this (see Reder 1982). Curmudgeonly and idiosyncratic, according to his admirers, Knight believed that economics was neither an empirical nor a predictive science (Stapleford, this volume). "Knight's specialty was debunking," Friedman later recalled (quoted in Van Overtveldt 2007, 72). Libertarian and contrarian, he defended free-market capitalism not out of utopian conviction, but for want of a better arrangement for the coordination of human affairs (see Breit and Ransom 1998). Knight's (1947, 341) notion of a far-from-idealized economic actor was "less *homo sapiens*, the knower, than *homo mendax*, the liar, deceiver, hypocrite, pretender, practicer of make-believe."

Another Knight protégé, Henry Simons, joined the Chicago faculty in 1927 and fashioned critical elements of what would later be characterized as a Chicago School position, although some of its leading members would