Introduction

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The University of Chicago has been identified with a unique brand of economic thinking for at least half a century. The essays in this volume discuss various dimensions of the nature, development, and extensions of the Chicago brand, often known as the Chicago School of Economics. The term ‘School’ is used here in a ‘positive’ sense; to indicate that a common set of assumptions – methodological and theoretical – about the discipline was developed by the economists at the University of Chicago, who sought through their teaching and research to enrich, extend and promote their vision of economic science. In this sense, one could speak equally of a Chicago School, a Cambridge (UK) School, a Wisconsin School, perhaps even a Cambridge (MA) School, with each of these schools (perhaps at different times in the twentieth century) adopting different methodological and theoretical assumptions and promoting a different perspective of economic science.

In the popular literature, most discussion of the Chicago School is focused on its ‘normative’ or ‘ideological’ character. Chicago in this context is primarily known as a promoter of *laissez-faire*, of market-based solutions to public policy problems, and for its connections to the Reagan, Thatcher and even Pinochet governments (for a variety of views, see Klein 2007, Van Overtveldt 2007, Freedman 2008, Shleifer 2009). In contrast to some of the other schools of economics mentioned above, the Chicago School understood economics to be an applied policy science, and, with some exceptions, have not been afraid to suggest that their scientific findings had relevance to policy debate. The essays included here often show the interconnections between the Chicago School’s methodology, its theory, and its policy advocacy and advice. However, the translation of economic science into public policy may yield surprises, and it is misleading to try to move from the normative or ideological back to the scientific in explaining a social scientific school of thought. For example, President Barack Obama has sometimes been identified as a ‘Chicago School’ Democrat (Leonhardt 2008). Ultimately, the question is whether the Chicago School’s policy framework is driven by the effort to understand how the working of the price system in free markets may affect a particular policy situation, or whether the theoretical understanding of the price system in free markets is driven by the attempt to defend a particular policy framework. Evidence for both views is provided in the volume, although the balance is probably tipped toward the first answer to the question rather than the second.

What, then, is the approach to economics as a policy science that forms the positive foundation for the Chicago School? The approach can be examined from methodological, theoretical, and organizational points of view. Each of the three views reveals a different facet of Chicago economics. From a methodological perspective, the Chicago School is grounded in the combination of two assumptions found in its two most famous methodological articles. Milton Friedman’s ‘The methodology of positive economics’ (Friedman 1953) claimed that progress in economics as a policy science can be significantly furthered by the use of a toolkit of basic models that require little

additional theoretical work. Graduate study at Chicago became a process of immersion in those models so that they became so intuitive to one's work that, in combination with new empirical investigation, they opened the door to novel evaluations of market organization and government policy. The other methodological foundation for Chicago economics was codified twenty years later (although it had become standard practice at Chicago much earlier) in the article 'De gustibus non est disputandum' (Stigler and Becker 1977). Friedman's two colleagues pointed out that an economic policy science must assume that tastes and preferences are universally the same in order to usefully claim that economic phenomena can be explained in terms of changes in the cost sets that decision makers face. Science is not advanced by an explanation that ends with 'A's tastes are different from B's tastes', or that 'A's tastes changed'. The combination of the two assumptions has allowed Chicago economists not only to provide policy-relevant models for market phenomena, but also to expand the realm of social interaction that those models can be used to explain, often to areas previously considered outside the scope of economic theory (see, for examples, Becker 1996, Becker and Murphy 2000, Levitt and Dubner 2005). Frequently referred to even by insiders as 'economic imperialism' (Lazear 2000) this expansion is probably the most significant theoretical development in Chicago economics over the past thirty years, and was made possible by the methodological foundations built during the previous thirty years (see Medema 1998, 2000).

In terms of economic theory, Chicago economics in the post-war period was built on a firm foundation of Marshallian price theory. The Chicago 'canon', which students were often expected to become familiar with during their early price theory courses, was Marshall (1920), Knight (1921, 1933, 1936), Viner (1931), Friedman (1962), Stigler (1966), and Simons (2002). By the 1980s, students had added Alchian and Allen (1969), Becker (1971), and McCloskey (1985). With its clear focus on economics as an applied policy science, Marshallian price theory provided a small set of tools for use in a wide variety of policy areas to examine the outcomes of specific types of interventions. Because Chicago has largely avoided the analytical side trips that the rest of the discipline often engaged in during the post-war period, its economists were able to combine a rich understanding of the insights of price theory with a deepening understanding of empirical data to provide policy-relevant theoretical insights into many of the disciplinary subfields.

In fact, the combination of Chicago's theoretical and methodological insights redefined the nature of the disciplinary subfields. Prior to the 1940s, the fields differed substantively in their approaches to their study because they focused on the nature of the institutions and participants in the industries they studied. Economic theory, *per se*, was of little relevance, many argued, because it treated markets in the abstract, while most of the work of economists lay in the specifics of the markets in a particular industry or segment of the economy. Of what use, argued the institutionalists and others, was economic theory to, say, labor economics or transportation economics; fields in which the nature of the subject was far removed from the abstract model of perfect competition. While Chicago economists were not the only ones who challenged this argument, their work in showing the relevance of price theory to the empirical investigation of outcomes in labor markets and even transportation markets rewrote the discipline's approach to the relation of theory and actual societal outcomes. Rather than being a department in

which a group of scholars all studied aspects of economic life, post-war Chicago economics became a scholarly group who used a common economic approach to analyze all aspects of life.

Central to the development of that common economic approach was the integration of the Chicago School's research and teaching missions. From the mid-1950s on, Chicago adopted an organizational framework that focused all members of the department – students, junior faculty and senior faculty alike – on the common mission of training economic scientists and advancing economics as an applied policy science. The framework created to meet this common mission is sometimes known as the 'workshop model' (Emmett 2007). Several of the essays mention the Chicago workshops in the process of discussing the development of the Chicago approach in particular subfields of economics: labor, money and banking, industrial organization, agricultural economics, public finance, international economics, economic history, law and economics, and the economic development of Latin America. By 1980, there were about 18 workshops functioning across the Economics Department, the Law School, the Business School, and the Committee on Public Policy Studies (which was to become in 1990 the Harris School of Public Policy Studies).

If the preceding identification of the Chicago School is correct, then the School is largely a post-war phenomenon. Melvin Reder (1982) and others (Bronfenbrenner 1962, Miller 1962) have argued that the post-war Chicago School is largely a continuation of the circle of scholars that gathered around Knight in the 1930s. Several essays in the volume examine the issue of continuity as they examine specific aspects of Chicago economics from the 1930s to the 1980s, and there are biographies of several key figures from the 1930s. However, while continuous elements are found (the 'Chicago' canon, after all, directs our attention to several pre-war contributions), the identification of economics as a policy science, and the creation of the workshop system that entrenched that understanding of economics in both teaching and research, make it clear that Chicago economics in the post-war period is a 'school of thought' in a way that the 'Knight circle' could only aspire to (for earlier versions of this argument, see Stigler 1962, Samuels 1976).

Not all the dimensions of the Chicago School are covered in this volume. While the lack of total coverage is unfortunate – efforts were made to obtain essays on international trade, household economics, and the role of the Cowles Commission at Chicago during the 1940s and early 1950s, for example – the essays included here provide ample evidence of the range and coherence of the Chicago approach. They also include some indication of the influence Chicago had on the broader discipline, not only in the essays on particular aspects of the Chicago tradition, but also through a couple of essays on people (Armen Alchian) or places (UCLA and the various Virginia universities at which James Buchanan and the Center for the Study of Public Choice have resided over the past 50 years) which interacted with Chicago in ways that both extended and challenged the Chicago perspective. Several of the essays also address the broader reach of Chicago economics as well as pointing toward new areas of research on the Chicago School: its relation to the development of neoliberalism and economic development in Latin America. Taken as a whole, the essays in the volume both survey the state of current knowledge about the Chicago School and suggest that much further research is required.

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