

Professor James Tobin

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James Tobin, economist: born Champaign-Urbana, Illinois, 5 March 1918; Economist, Office of Price Administration, and Civilian Supply and War Production Board 1941-42; Teaching Fellow in Economics, Harvard University 1946-47, Junior Fellow, Society of Fellows 1947-50; Associate Professor of Economics, Yale University 1950-55, Professor of Economics, 1955-57, Sterling Professor of Economics, 1957-88 (Emeritus); Nobel Prize in Economics 1981; married 1946 Betty Ringo (three sons, one daughter); died New Haven, Connecticut 11 March 2002.

James Tobin belonged to that extraordinary vintage of great economists whose formative years coincided with the Great Depression of the 1930s. The calamity and paradox of mass unemployment in a world with empty factories and many unmet needs presented the young and gifted with some of the most pressing intellectual and policy challenges of the decade. Many of the best minds chose to become professional economists.

Surviving members of this unique cohort include Robert Solow, Paul Samuelson, Franco Modigliani, Larry Klein and Milton Friedman in the United States. Of their intellectual peers in Europe -- James Meade and John Hicks of the UK, Jan Tinbergen of the Netherlands and Maurice Allais of France -- only the last survives. Never before or since has economics had the pick of the world's brains like that.

Born in 1918 in Champaign-Urbana, Illinois, in the American Midwest, Tobin obtained his BA at Harvard in 1939. During the Second World War, he served in the US Navy. He makes a brief appearance in Herman Wouk's novel *The Caine Mutiny* (1951). One of the main characters, Willie Keith, has ambitions to be first in his class when entering midshipman school, but soon sees that this will be denied him: "A mandarin-like midshipman named Tobit, with a domed forehead, measured quiet speech, and a mind like a sponge, was ahead of the field by a spacious percentage." Those who knew Jim Tobin will have no difficulty identifying the suspect. A statistical estimator developed later by Tobin was given the name Tobit.

Shortly after the war, Tobin married Betty Ringo. They raised four children. He also obtained a PhD in economics from Harvard University. From 1950, he taught at Yale. Tobin's contributions to economics are wide-ranging, fundamental and lasting. His macroeconomic research programme benefited greatly from the fact that he was also a very fine microeconomist who understood contemporary developments in choice under uncertainty and general equilibrium theory very well indeed. He was among the first to bring sophisticated, formalised versions of the Keynesian model to the US. Unlike many British Keynesians, his work always emphasised the role of monetary policy.

He served on the Council of Economic Advisers during the Kennedy years and was the father of the Kennedy tax cut which started the boom of the Sixties. His long debate in the 1960 and early 1970s with Milton Friedman was not about whether money matters, but whether it is only money that matters for economic fluctuations. Today it is clear that Tobin had the better of that debate.

He made fundamental, lasting contributions to the study of private consumption behaviour, the theory of economic growth, the theory of banking and financial intermediation, and the theory and empirics of portfolio allocation -- the study of how investors allocate their financial wealth across alternative risky investment opportunities to obtain the best risk-return configuration. In 1981 he received the Nobel Memorial Prize in Economics, "for his analysis of financial markets and their relations to expenditure decisions, employment, production and prices".

Tobin's attitude to the rational expectations school of the late Seventies and the Eighties was one of enduring scepticism. The policy ineffectiveness propositions (stabilisation policy at best achieves nothing; at worst it adds noise and uncertainty to the economy) that came out of the marriage of rational expectations with simplistic New Classical competitive equilibrium models were never accepted by him. Tobin's short-run inflation-unemployment trade-off always persisted long enough to give policy a chance.

Tobin recognised and emphasised the crucial role incentives play in shaping human behaviour. He was, however, scornful of the so-called "supply side economics" of the Reagan era and of its current reincarnation under Bush Jnr. He rejected the proposition that cuts in marginal tax rates would more than pay for themselves, even at full employment, by unleashing the thrift, industry and animal spirits of the American worker-saver-entrepreneur. He knew a case of self-serving special pleading by the rich for the rich when he saw one.

Unlike most economists, Tobin was a master of the English language. I well remember his comments after he returned to me what I had thought was the final draft of my PhD thesis, which had been written in a very Germanic style: *"Just cut all the sentences in half, and I will approve it."*

Despite his prodigious output of scholarly and policy papers, Jim Tobin had a wide-ranging and often active interest in culture, the arts and sports. With Betty he shared a love of Gilbert and Sullivan, the jazz musician Leon "Bix" Beiderbecke and the hopeless quest of the Chicago White Sox for a World Series victory. Before age finally took its toll, he was an enthusiastic participant in many sports, including tennis and skiing. His style in both sports was unique but quite effective. His competitive edge did not leave him on the tennis court.

Betty and Jim Tobin's New Haven home was for many decades a magnet and refuge not only for friends and colleagues, but also for legions of students. A large number of cats and dogs also frequented the premises, and sometimes appeared to run the place. During my student days I counted a growing number of Newfies and a three-legged cat. A recurring event was the Christmas party at the Tobins, which lasted from the early evening till the wee hours of the morning and had pizza, beer, poker and companionship as its key ingredients.

Jim Tobin was an imposing presence. The Dutch say of someone who stands out in a crowd: he enters the room twice. Tobin generally entered quietly, but he definitely always entered twice. He could be rather overwhelming on a first or second acquaintance. I remember standing across from him, as a second-year graduate student -- the lowest life-form in academe -- in his office on the top floor of the

Cowles Foundation at Yale University. I had some half-baked idea I wanted to turn into a PhD dissertation and hoped he would supervise me. As I went through my well-prepared mini-presentation, Jim looked at me, slouched in his seat, with his glasses half-way down his nose, and said nothing. The forehead began to look more and more domed and first one and then two eyebrows began to rise. I lost it completely and left saying I would put it all down on paper. I never did. It soon became obvious that the eyebrows had risen for a good reason.

He raised many generations of PhD students, many of whom owed their first publications to a joint publication with the Master.

He was a lifelong Democrat and liberal, in the American sense of the world. He did not believe that a raw, unadulterated capitalist market system would be either automatically stable or just. He favoured the use of monetary and fiscal policy for active stabilisation policy. He also argued for a public sector that commanded, through broadly based taxes, sufficient resources to help those who have trouble helping themselves and to finance the provision of public goods. He recognised the enormous vitality of a market economy and its unique capacity for creating material wealth. He was also aware of the manifest failures of the market mechanism when confronted with major environmental externalities.

As regards international economic policy, he supported free trade and multilateralism. He also favoured government assistance to the losers in the trade liberalisation process, but with the support designed to assist the reallocation of resources from dead-end industries towards viable new uses. He was sceptical of the benefits of international financial integration in a world with multiple currencies.

One of his most famous proposals was for a tax on foreign-exchange transactions designed to deter short-term speculative capital movements and thus stabilise exchange rates. This so-called "Tobin tax" was in recent years adopted by some of the most determined enemies of trade liberalisation, globalisation and the open society. The proposal to use the Tobin tax as a means of raising revenues for development assistance was rejected by Tobin, and he forcefully repudiated the anti-globalisation mantra of the Seattle crowd.

Jim Tobin embodied the best America has offered the world during the past century. He had a prodigious intellect and seemingly inexhaustible energy and creativity. He was tolerant of views he disagreed with, and passionate in the defence of tolerance. He objected to the war in Vietnam but also to the mob culture that grew up around the anti-war movement and shouted down and intimidated those it disagreed with. He saw both the uses and the limitations of competition, and where it should give way to co-operation.

He valued self-reliance and insisted on personal responsibility, but recognised the moral obligation each one of us has to our fellow men. He recognised that society was more than a collection of loosely connected individual utilitarian automata. He was completely without falsehood or pretence. He could be fierce in his denunciation of what he saw as dishonest, hypocritical behaviour. He despised those who treated the truth as a strategic or tactical option rather than something to be valued and pursued for its own sake. Nixon made him furious. Bill Clinton made him sad.

When I heard of Tobin's death, I felt as though I had lost a parent, an intellectual father. Still, I can count myself fortunate for having had the privilege of knowing him in person. He was a great man. What is more, he was a good man. He made a difference to the lives of those he touched, whether in person or through his writings. Both the memory and the writings will endure.