

NOVEMBER 8, 2008

## Obama Builds Ties to 'Chicago School'

By JUSTIN LAHART

"The Chicago School of Economics" has become shorthand for a no-holds barred free-markets view of the world that borders on the libertarian. At the University of Chicago, Milton Friedman laid the intellectual foundations for the anti-inflation, tax-cutting, small-government policies of President Ronald Reagan and British Prime Minister Margaret Thatcher.

So in some ways it's strange that President-elect Barack Obama has been bouncing ideas off Chicago economists and counts some of them as his closest advisers.

It's a sign of how the world has changed, with many ideas championed by Chicago economists finding greater acceptance. It's also a sign of how Chicago has changed -- though many economists at the university hold that the "Chicago School" was never quite what outsiders deemed it to be.

"The outside perception of Chicago economists is that they all believe whatever Milton Friedman believed in 1950," said Richard Thaler, an economist at the University of Chicago Booth School of Business and an adviser to Mr. Obama. "The correct perception here is: Data rules."

Mr. Thaler is at the forefront of behavioral economics, which holds that markets are imperfect because people often stray from rational decisions. Mr. Thaler's association with the Obama campaign led some to suggest that the president-elect's economic policy will have a behaviorist bent. But behavioral economics is an outgrowth of a general shift over the years toward more data-based, empirical economics. That empirical shift grew from the advanced computing power and access to data ushered in by the information revolution. Many questions that economists debated on theoretical grounds have been settled by facts.

One reason for the alliance among economists at Chicago and elsewhere with Mr. Obama is that they feel he is a fellow traveler, sharing their empirical, data-driven bent. James Heckman, a University of Chicago Nobel laureate, looked over the Obama campaign's education plan at the request of Austan Goolsbee, a Chicago business-school economist who is expected to head the White House Council of Economic Advisers.

"They were extremely interested in facts," Mr. Heckman said. "There seemed to be, with the people I dealt with, less of an ideological bias and more of an empirical one. A lot of economists like to feel that the direction of the profession is going that way, too."

Many economists were cheered in April when, amid higher gasoline prices, Mr. Obama opposed a gas-tax holiday -- an idea supported by Sens. John McCain and Hillary Clinton, who was competing with Sen. Obama for the Democratic nomination. Textbook economics said in response to the tax cut, demand would simply raise gas prices to their previous level, and so the benefit of the cut would flow to energy producers rather than consumers.

"The gas-tax episode was a very good sign," said Princeton University economist Jose Scheinkman, who spent most of his career at Chicago and was chairman of its economics department from 1995 to 1998.

Mr. Scheinkman, an Obama supporter, says that insofar as economics has changed, so has politics. "There are many things that used to be very common to the left that the left is no longer interested in," he said. "They moved closer to the way economists tend to think."

Still, a number of Mr. Obama's pronouncements have made many economists wince. His sometimes strident views on trade protection during the campaign weren't only troubling to Chicago's free-trade backers. A 2005 survey of Ph.D.s randomly selected from the American Economics Association found that 87.5% of economists agreed that the U.S. should eliminate tariffs and barriers to trade.

In March, when a Canadian government memo surfaced citing Mr. Goolsbee saying that Obama campaign statements on the North American Free Trade Agreement amounted to "political positioning," Mr. Obama took some lumps, but many economists were relieved.

**Write to** Justin Lahart at [justin.lahart@wsj.com](mailto:justin.lahart@wsj.com)