

# “The Curious Case of William Niskanen: A Case in Business Ethics”

Cameron M. Weber, PhD  
St. John’s University, Queens NY  
cameron\_weber@hotmail.com  
cameroneconomics.com

Southern Economic Association Meetings  
New Orleans, LA November 21 – 23, 2020  
(Virtual Presentation due to state of NY travel quarantine requirements)

Paper is in DRAFT, comments welcome

# The Curious Case of William Niskanen: A Case in Business Ethics

*A common commitment to refrain from special favors serves the same economic function as a common commitment to refrain from stealing\**

- Bill Niskanen ca. 1980

No direct link found between Niskanen's published works and Tullock "The Welfare Costs of Tariffs, Monopolies, and Theft" (1967)

\*Segal, D. 2011 *NYT* "William Niskanen, A Blunt Libertarian Economist, Dies at 78".

# The Curious Case of William Niskanen: A Case in Business Ethics

*Motivation for this research:*

Am interested in discovering intersections between history of economic thought, the concept of leaders and decision-making, public choice economics and the economic and social history of the United States

Niskanen's (1932-2011) public history provides an interesting entry-point into modern and contemporary economic thought and debate

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics?

**On the one-hand** Niskanen is an establishment figure, educated at Chicago and Harvard, faculty member at U.C. Berkeley, defense analyst at the RAND Corporation, assistant director in Nixon's Office of Management and Budget, chief economist at the Ford Motor Company and member of the Council of Economic Advisors under President Reagan.

**One the other** Niskanen is an idealist and iconoclast. Fired by Nixon OMB for discussing dishonest fiscal reporting by the Nixon Administration, fired by Ford for not supporting trade protection against Japanese automobiles and quits Reagan's CEA because of a clash with Treasury Secretary Don Regan over tax policy.

After this Niskanen serves as chairman of the Cato Institute for 25 years.

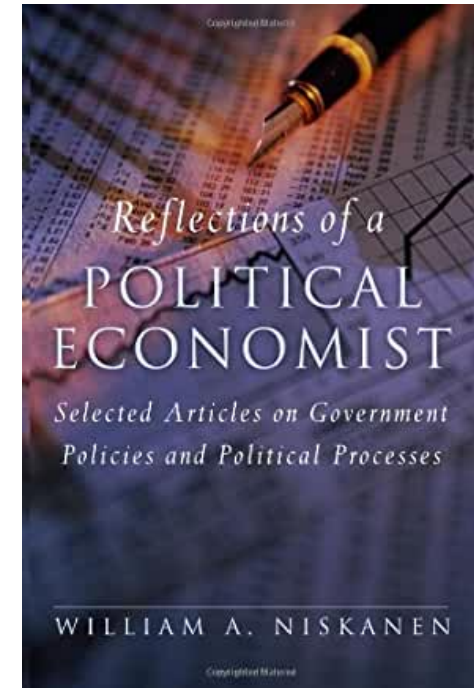
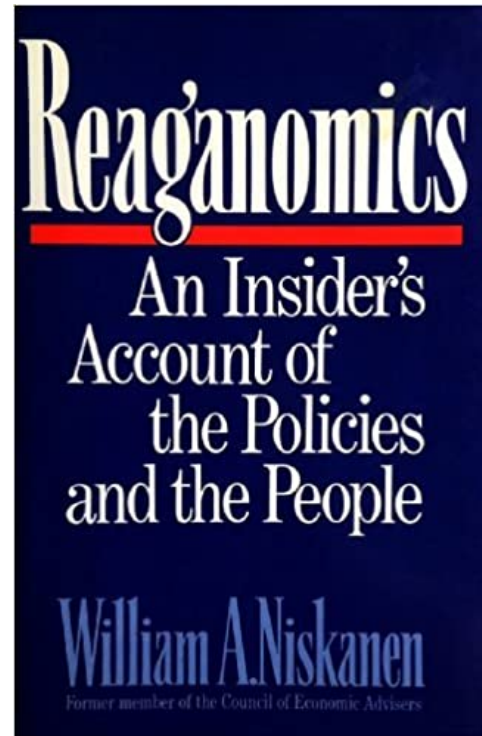
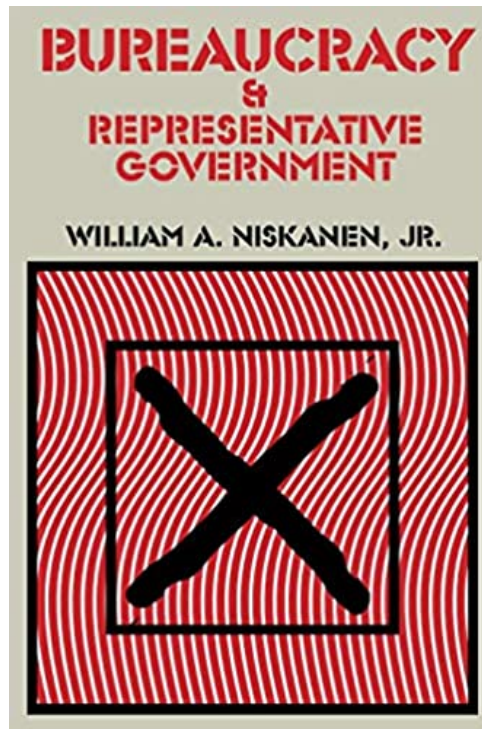


# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics?

Our 'literature review' of Niskanen:

- Niskanen, William A. (1971 [2017]). *Bureaucracy and Representative Government*. London and NY: Routledge.
- - (1983). "William Niskanen: Reason Magazine 15<sup>th</sup> Anniversary". Youtube video.
- - (1988). *Reaganomics: An Insider's Account of the Policies and the People*. NY and Oxford: OUP.
- - (2004). "Book Review: Virginia Political Economy; the Selected Works of Gordon Tullock, Volume 1". *The Cato Journal* 24:3, 371+.
- - (2008). *Reflections of a Political Economist*. Washington, DC: Cato Institute.
- - (2012). "Gordon Tullock's contribution to bureaucracy". *Public Choice* 152:1/2, The intellectual legacy of Gordon Tullock, 97-101.

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics?



# “The Curious Case of William Niskanen: A Case in Business Ethics”

As stated we cannot find any references in Niskanen published works to Tullock’s “The Welfare Costs of Tariffs, Monopolies, and Theft” (1967) *Western Economic Journal*.

Though our epigram

*A common commitment to refrain from special favors serves the same economic function as a common commitment to refrain from stealing*

- Bill Niskanen ca. 1980

would have us believe there was an interaction between the two on this issue.

# “The Curious Case of William Niskanen: A Case in Business Ethics”

Next we explore Tullock’s ‘rent-seeking’ models\* in mainstream economics, to see how this evolution might have informed Niskanen’s thought.

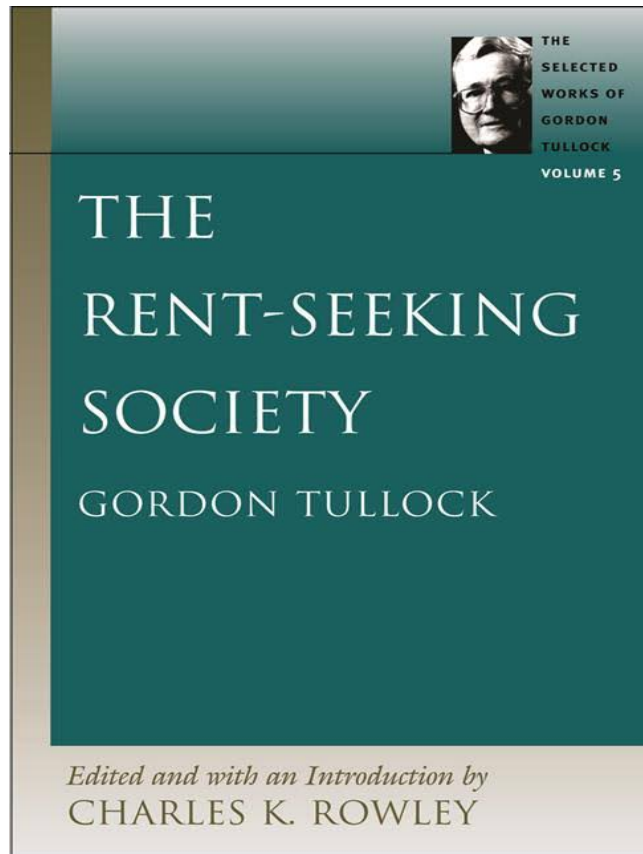
\*“Rent-seeking” as a term in economics language based on Tullock’s formulation of the idea (1967) becomes part of the vernacular and conventional wisdom with Anne Krueger (1974) “The Political Economy of the Rent-Seeking Society”, *The American Economic Review*.

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

Although Niskanen and Tullock do not reference each other on trade (?) they do so on bureaucracy.

We also know Tullock and Niskanen are working together in the summer of 1967 at the Institute for Defense Analysis when Niskanen is Tullock's supervisor (Niskanen 2008, 314), immediately preceding publication of "The Welfare Costs of Tariffs, Monopolies, and Theft" Tullock (1967).

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics



In “The Welfare Costs of Tariffs, Monopolies, and Theft” Tullock (1967) footnotes Niskanen’s contribution to the discussion, “The cost of a football pool is not measured by the cost of the winner’s ticket, but by the cost of all tickets”.

Tullock (1967) likens “theft” to lobbying for special treatment under law for monopoly and trade protectionism and uses an arms-race metaphor.

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

In “The Welfare Costs of Tariffs, Monopolies, and Theft” Tullock (1967), to paraphrase, we find,

The more that the thief increases their activity including technology, the more that other people spend on increasing their protection against the thief. In perfect competition this means that the marginal costs of protection by the intended victims tends to equate the marginal costs of investment by the thief. Therefore the original Tullock Rectangle can mean a deadweight loss to society rather than a surplus transfer to the thief as many thieves can compete for state favors.

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

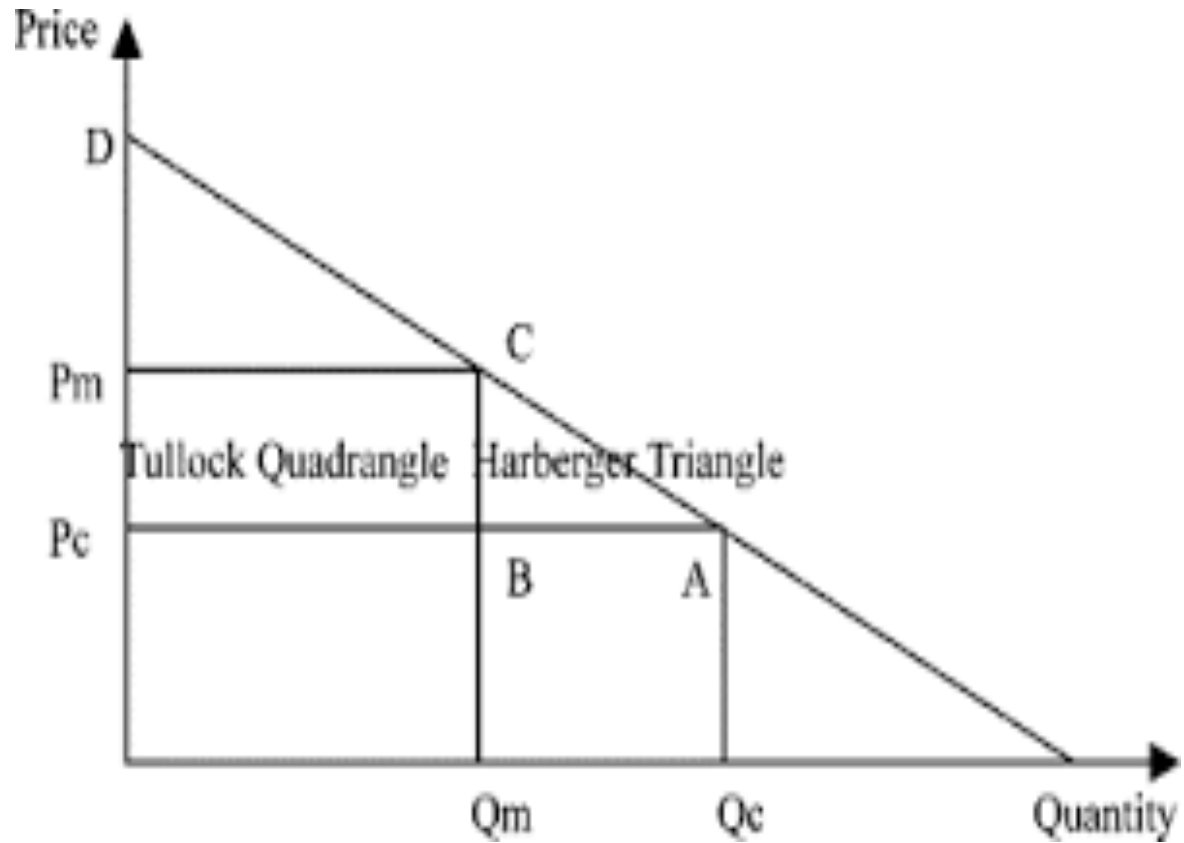
Tullock is expanding upon Harberger's (1954, 1959) original formulation of a deadweight loss of surplus due to government intervention.

The loss, assuming equating marginal costs and benefits under competition, is greater than Harberger's original triangle formulation. And can include up to what is now known as the Tullock Rectangle.

State intervention in terms of rent-seeking can cause more harm than previously understood.



# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics



# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

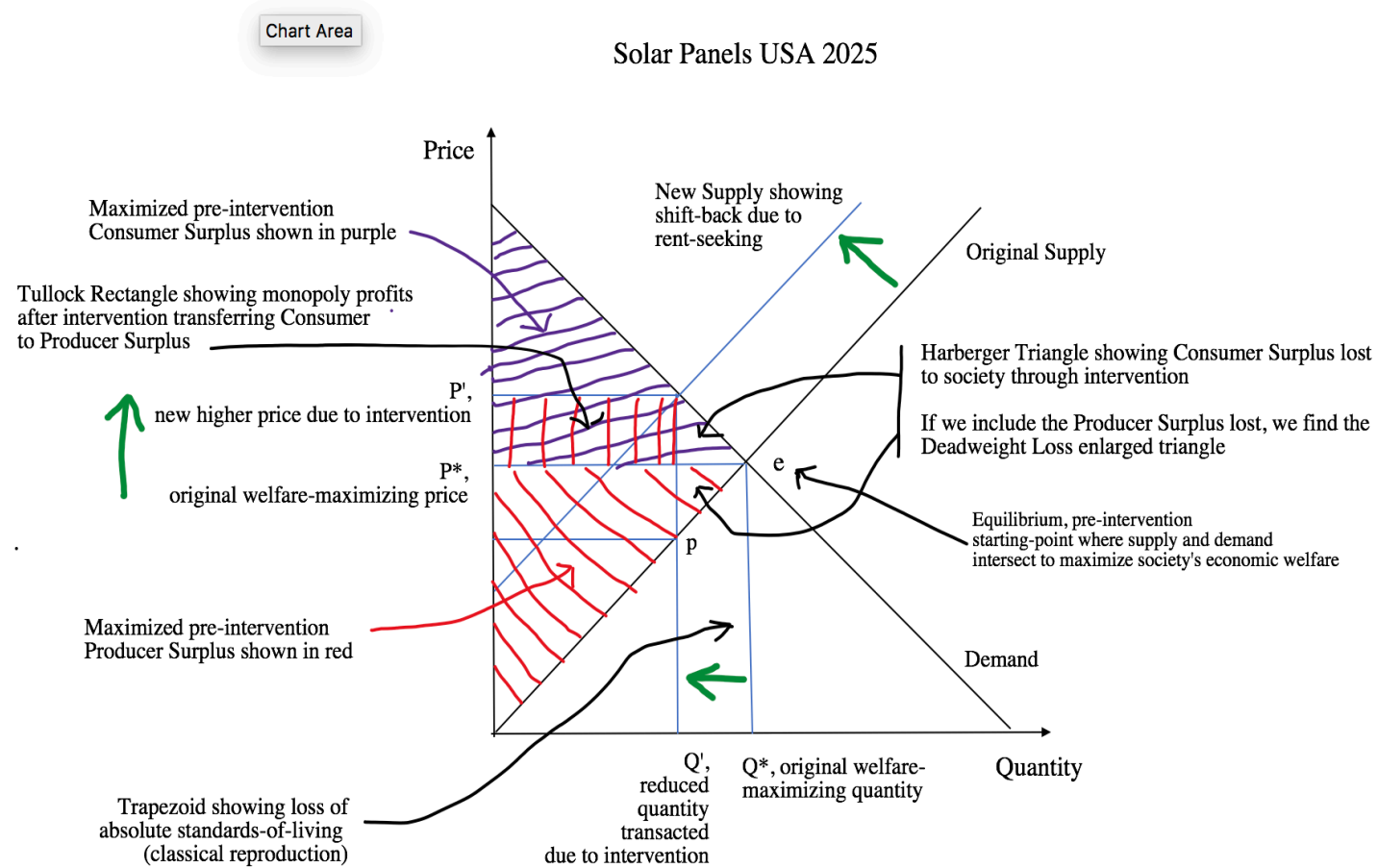
*An application from Classical Economics*

At this point we add our extension to the understanding of the economic welfare loss due to intervention in the Supply and Demand model. If we view society or the economy, as Smith, Ricardo and Marx and other classical economists did, as first a system which reproduces itself, then anything beyond this material reproduction represents a surplus. We can visualize this relationship in Equation 1.

Reproduction + Surplus = Economy (Society)                      (1)

The intervention not only reduces surplus as the (Harberger) Deadweight Loss and the Tullock Rectangle. We also have a reduction in reproduction, or, declining real standards of living due to intervention.

# The Curious Case of William Niskanen



The Curious Case of William  
Niskanen (1933-2011):  
A Case in Business Ethics

Now we highlight key events in  
Niskanen's career to illustrate that  
he lived his ideals of seeking  
government favors as antithetical to  
a life well-lived.



# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

Fired by Nixon Office of Management and Budget Director (OMB)  
George Shultz for pointing-out dishonest budget reporting (1972)

Fired by Ford Motor Company for not supporting trade barriers against  
Japanese Automobiles (1980)

Quit Reagan's Council of Economic Advisors when not appointed chair  
due to a dispute with chief of staff's Donald Regan over tax policy  
(1985)

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

After quitting the Reagan Administration in 1985, Niskanen is Chairman of Cato Institute in Washington, DC for the next 25 years

The Cato Institute is known as a libertarian (classical liberal) research institution, with self-defined labels such as “market liberalism”, “peace and prosperity” and “fiscally conservative and socially liberal”

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

In 2008 Niskanen writes *Reflections of a Political Economist*.

I have been privileged to serve as the chairman of the Cato Institute since April 1985, following four years as a member and acting chairman of the Council of Economic Advisors under President Reagan. My Cato position involves a variety of responsibilities and is the longest that I have served in any position. I am now 75 years old. So the selection of papers in this book probably represents the focus, diversity, and quality of anything I might write in the future (1-2).

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

*Reflections of a Political Economist 2008 (cont)*

The past 10 years have been a very productive period, both for Cato and for me. Cato has developed into one of the nation's most effective policy institutes and has maintained a consistent commitment to the principles of individual liberty, free markets, limited government, and peace – principles that have led us to be increasingly critical of the Bush administration and congressional Republicans. The sad prospect is that these same principles will probably lead us to be increasingly critical of the coming Democratic administration and congressional majority [...]. (1-2)



# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

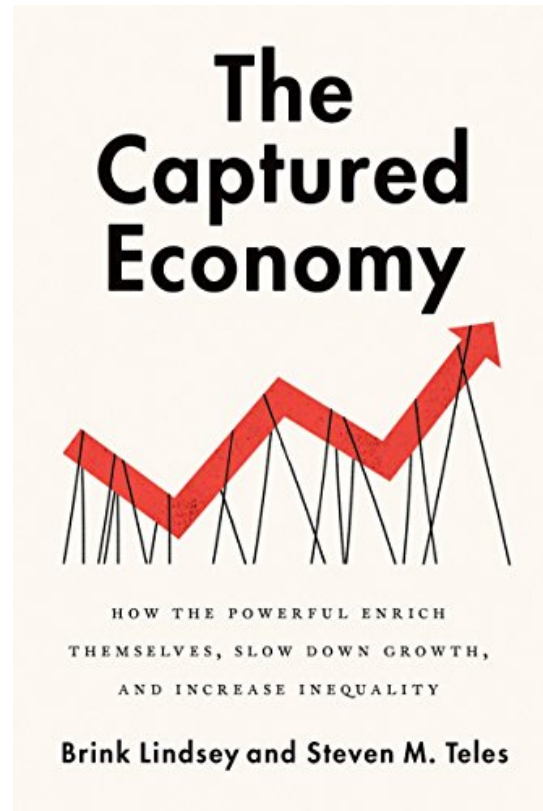
While at Cato Niskanen expresses his non-interventionalist sentiments in:

- “Oil is Not Worth a War” is presented at Cato eight days before the Gulf War in 1991
- “An Unnecessary War is an Unjust War” is from a television interview with Niskanen by James Woolsey almost a year before Congress gives the Bush Administration the right to invade Iraq in 2002

Both are contained in *Reflections of a Political Economist* (2008)

# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

In 2015 the Niskanen Center is founded. Two scholars who are affiliated with the Center have published this on Oxford University Press (2017).



# The Curious Case of William Niskanen (1933-2011): A Case in Business Ethics

## Summary and Conclusion

We have presented a brief biographical and intellectual sketch of William Niskanen in order to illustrate that his life as lived is as indeed a case in business ethics. Rent-seeking, political capitalism in our current constitutional order, results in many forms of economic welfare loss to society.