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William N.iskanen: Economist, Scholar, and Foe of Political Capitalism

by Robert Bradley Jr.

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The longtime chairman of the Cato Institute, William N. Niskanen, passed away last week at age 78. We shared the podium a few times on energy issues, and I admired his Enron project at Cato that resulted in two books, [*Corporate Aftershock: Lessons from the Collapse of Enron and Other Major Corporations*](#) (2003) and [*After Enron: Lessons for Public Policy*](#) (2005).

Like virtually everyone else who knew him, I remember Bill as a scholar and gentleman. He had one tone of voice and reliably imparted insightful logic. He was what I like to call a *scholar's scholar*, role model for the rest of us.

Career

William Arthur Niskanen Jr. (1933–2011), born in Bend, Oregon, graduated from Harvard University with a degree in economics in 1954. He earned his economics doctorate in 1962 from the University of Chicago.

After teaching at the the University of California at Berkeley, Niskanen Joined Ford Motor Company in 1975. Forced out at Ford (see below), Bill worked as an economist at the Rand Corp., the Department of Defense, and the Office of Management and Budget. Niskanen then joined Ronald Reagan's Council of Economic Advisors (1981–85), after which he joined Cato where he served as chairman for 23 years before becoming chairman emeritus in 2008. He was the 'establishment' figure that Ed Crane needed badly for Cato to reach the next level, and Ed pulled off the deal to make it happen.

'Blunt Libertarian Economist'

The *New York Times* obituary described Niskanen as "a blunt libertarian economist." But Cato's Gene Healy, in his tribute [*Farewell, to the Most Honest Man in Washington*](#), brought attention to the "vastly more interesting and admirable" side of the man. "Bill Niskanen had the kind of character that's vanishingly rare in Washington DC," wrote Healy. "He was a man who put principle above partisanship and personal gain."

Bill Niskanen will be remembered for various things. One was his root insight into how the government really works as versus the romantic view of government. The bureaucrat, in Niskanen's words, "is a 'chooser' and a 'Maximizer' and ... not just a 'role player' in some larger social drama." [[*Bureaucracy & Representative Government*](#). New York: Aldine Atherton, 1971, p. 5.]

Ford Motor Company: A Great Freedom Moment

Rent-seeking in the mixed economy, or [political capitalism](#), has been alive and well in America for a very long time. Political economists in the eighteenth and nineteenth century saw the peril of business and government working together to restrict competition. And Niskanen's mentor Milton Friedman [opined](#):

The two greatest enemies of free enterprise in the United States ... have been, on the one hand, my fellow intellectuals and, on the other hand, the business corporations of this country.

Enter Bill Niskanen at the Ford Motor Company in the troubled 1970s when energy shortages from federal price and allocation controls ruined the business-as-usual economics of Detroit's auto makers.

I tell the story in [Capitalism at Work: Business, Government, and Energy](#) (2009), pp. 176–77:

In *The Suicidal Corporation* (1988), Paul Weaver described Ford Motor's "corporatism—broadly, the management of a nation's markets and politics by companies, unions, and/or other producer groups in their own interest, backed up where necessary by the power of government." The mentality among his peers was "less a set of ideas than an attitude" that whatever would benefit the company was all right for them to seek. They believed that any method that would secure those benefits was all right for them to use. They believed that pursuing corporate advantage through the public-policy process was their duty and right. Whatever my colleagues felt like doing, they did.

Political promiscuity was joined by public- and investor-relations promiscuity. Ford's press releases were "Good News Only and No Bad News," even as billions of dollars in losses were recorded. "We lied," Weaver remembered.

"Boundless ambition" created a "good for Ford, good for society" mindset. Conscience-free political capitalism and perception-over-reality public relations went together. Ford's rent-seeking peaked in 1980 when senior management decided to lobby for federal import restrictions against Japanese automobiles, ironic for a company that in the era of Henry Ford and Henry Ford II had been a force for open trade and internationalism. F

Ford's chief economist, William Niskanen, who left a tenured position at the University of California at Berkeley in 1975 to join the company, was nonplussed. In meetings and memos he bluntly admonished Ford's top brass to either meet the competition or get out of the car business. One memo came with a philosophical flourish: "A common commitment to refrain from seeking special favors serves the same economic function as a common commitment to refrain from stealing."

Ford went hard for automobile protectionism, and Niskanen was dismissed for his intransigence. "In this company, Bill, the people who do well wait until they hear their superiors express their views," his boss explained. "Then they add something in support of those views."

Ford's political and personnel actions were hardly surprising. Corporate rent-seeking was old hat, as economists from Adam Smith to Milton Friedman documented. A corporation is not a free-market think tank. Niskanen went to war and lost. An in-the-ranks uprising at Enron over the company's renewable energy and global warming strategy replayed the tape a decade later, although Ken Lay found a compromise to prevent a high-profile firing, as discussed in Book 3.

Niskanen went on to bigger and better things. He was appointed to President Reagan's Council of Economic Advisers soon after leaving Ford and in 1985 became chairman of the libertarian Cato Institute in Washington, D.C. One of Niskanen's most important projects at Cato would be corporate accountability and regulatory standards in the wake of the Enron debacle, resulting in learned books on the subject.