

*At a meeting of the FACULTY OF ARTS AND SCIENCES on November 3, 2020,  
the following tribute to the life and service of the late Richard Earl  
Caves was spread upon the permanent records of the Faculty.*

## **RICHARD EARL CAVES**

BORN: November 1, 1931

DIED: November 22, 2019

Richard Caves was born in Akron, Ohio, in 1931 and passed away in November 2019 at his home in Cambridge. He obtained his B.A. at Oberlin in 1953, his Ph.D. at Harvard in 1958, and his first academic appointment at Berkeley in 1957, working with Joe Bain, an early force in industrial organization. Richard (“Dick”) Caves accepted a Harvard professorship in 1962 and remained at Harvard until his retirement in 2003.

Professor Caves was a multitalented academic, whose use of insights from economic theory to increase understanding of the institutional features of industries made him a foundational figure in both international trade and industrial organization. His book on multinational enterprises foreshadowed the integration of the study of industries into the modern analysis of international trade. He was a connoisseur of art, with a stunning personal collection of modern pieces, which nurtured a seminal book on the economics of creative industries. His detailed knowledge of the economy led to a number of influential policy positions, including serving as a consultant to the Council of Economic Advisors to the President in 1961 and on the Task Force on Foreign Economic Policy in 1964.

Dick’s considerable administrative abilities are also noteworthy. He was a hugely successful chair of Harvard’s Economics Department (1966–1969). He hired or promoted Kenneth Arrow, Zvi Griliches, Dale Jorgenson, Martin Feldstein, and Stephen Marglin. Dick was also chairman of the Business Economics program (1984–1997), to this day one of the department’s most successful graduate programs. Dick was also a gifted teacher who mentored many students, several of whom, including two members of this committee, went on to very successful careers. His ability to communicate his insights, generally with a twinkle in his eye, brought other members of the department, notably A. Michael Spence, to the study of industrial organization.

Dick’s contributions to international trade and foreign direct investment have been considerable and long lasting. His seminal contributions to analysis of foreign trade through the lens of industrial organization have been particularly important. In Professor Caves’s first

book, authored with R. H. Holton in 1959, he emphasized Canada's dependence on foreign trade. A year later, he published a mostly theoretical treatise on trade structure in which he reviewed the available neoclassical knowledge about drivers of trade and their impact on national economies. He then ventured to integrate industrial organization into trade theory and proceeded to apply the new theoretical insights in empirical analysis. In the written version of his Frank D. Graham Memorial Lecture, published by Princeton in 1974, he spelled out eloquently the need to integrate industrial organization into international trade:

Much of the toil of my professional career has been in the vineyards of international trade and industrial organization. Until a few years ago these two branches of economics remained in sanitary isolation from each other—in my own thinking, and in that of nearly all other practitioners. Yet the intellectual costs of [it] kept appearing on the accounts. Why should research on industrial organization assume that markets always stop at national boundaries? How can international economics continue to ignore all microeconomic market imperfections? How can we light our way to understanding foreign direct investment with general-equilibrium theory for a lantern?

Indeed, one of Richard Caves's most important missions became using the lantern of industrial organization to shed light on issues of foreign trade. These issues included the role of international markets in taming the impact of domestic monopolies, oligopolies, and monopolistically competitive firms and the impact of trade policy in these circumstances. His insights anticipated the revolution in trade theory and in strategic trade policy in the 1980s. Moreover, a treatise on multinational enterprises he published in 1982 became the major reference book on foreign direct investment and the operation of multinational firms. Caves trained generations of Harvard students in the field of international trade and many more through his 1973 textbook with Ronald W. Jones on world trade and payments. Many editions of this book followed and it has been adopted worldwide.

Caves had a practical and multidisciplinary perspective to research in industrial organization. He encouraged students to cross boundaries between theory and empirical work, economic analysis and business practice, and industrial organization and other fields. His own early work focused on cross-sectional studies of industries with a focus on the determinants of market structure and their implications for productive efficiency, market power, and the dynamics of the evolution of industries. This work shed light on the impacts of scale economies and intangible assets on structures and evolutions of industries. Influential papers on the decline of dominant firms and the role of within-firm product diversification in firm growth and decline integrated relatively understudied topics into the study of industrial organization.

Through a mixture of empirical work on particular industries and insightful economic reasoning, in later years he illustrated the interaction between theoretical concepts and

empirical work, followed largely by the current literature on industrial organization. In papers in 1985 and 1986, Dick pointed out the importance of product differentiation and the role of information provided to consumers on products in determining demand, topics that are integral to the modern treatment of demand in industrial organization. In a 1986 paper with Punkaj Gemawat, he empirically investigated the role of commitment in deterring entry and maintaining dominance in the market, and in a 1987 paper, he looked at transaction cost determinants of firms' abilities to adjust prices and quantities. In his later years, Dick focused on more detailed industry studies, which led to the more data- and econometric-intensive research possible today with the advent of modern computational facilities. The later work delved more deeply into contract theory and the role of asymmetric information in forming the structures of different markets, particularly in the market for creative industries, topics that are now being integrated into empirical structural models of industry behavior.

Caves was a creative force in applied economics who mastered and integrated different fields and conveyed his insights with humor and clarity. He will be missed.

Respectfully submitted,

Elhanan Helpman  
Michael Porter  
Ariel Pakes, Chair