

## THE ECONOMIC NOBEL PRIZE

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THE NOBEL PRIZE IN ECONOMICS is considered the ultimate consecration that an economist could receive from his fellow peers. Hence, to cast a critical opinion on the Prize, rather than on the views of a particular laureate, implies a critical attitude toward the entire economics profession as it has developed at least for the last 40 years. This implication is quite serious, for it puts into question the scientific value, and hence the very meaningfulness, of the activity of tens of thousands of researchers in social sciences. Nevertheless, an argument should be judged based on its validity, not on its implications. Whatever the implications of an argument are, they must be accepted, as long as the argument itself is valid. Hence, one should not be reluctant to re-examine an institution such as the Economic Nobel Prize. This precisely is the goal of the present article.

This article reviews the Prize Committee's assessment of a substantial number of laureates, and thus purports to identify the type of research and contributions to the economic science that the Prize has been rewarding. Both the method (section 2) and the content (section 3) of the rewarded contributions are analyzed. Instead of an introduction, the article starts with a general presentation of the Prize and of the existing scattered criticism (section 1). It is found that the Prize displays a consistent bias against the free market and in favor of state interventionism. The final section concludes by raising a concern about the scientific integrity of the Prize.

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## 1. The Nobel Prize in Economics and its Critiques

First and foremost, the Nobel Prize in Economics is not a genuine Nobel Prize. It was established in 1968 only, i.e. 67 years after the creation of the five Nobel Prizes, by the Central Bank of Sweden (Riksbank) on the occasion of its tercentenary. The idea came from the then Central Bank's governor, Per Asbrink, and initially met some resistance from the Royal Swedish Academy of Sciences, which was invited to become the awarding authority for the new Prize, as it had been playing this role for the Nobel Prizes in physics and chemistry. The Academy's doubts about the appropriateness of a scientific award in the field of economics were dissipated by the active lobbying of three men: Assar Lindbeck, economic advisor to the Central Bank of Sweden, Erik Lundberg, professor of political economy at Stockholm University, and Gunnar Myrdal, himself member of the Academy, and a future laureate. The agreement of the Nobel Foundation was easy to secure, as the Foundation would receive the funding for the Prize, as well as an additional donation for the extra operational expenses, from the Central Bank of Sweden. In addition, the exact name of the Award, "The Central Bank of Sweden Prize in Economic Science in memory of Alfred Nobel," was meant to dissipate any possible confusion with the five original Nobel Prizes.

However, everything else was set up in such a way that confusion would be guaranteed. The procedures for nominating, selecting and awarding laureates were directly borrowed from, and also integrated into, the procedures used by the Nobel committees in chemistry and in physics, i.e. the two "hard" sciences that Alfred Nobel wanted to distinguish.<sup>1</sup> The Nobel Memorial Prize in economics was first awarded in 1969, and after a few years, the Swedish Royal Academy of Sciences discontinued calling the Prize by its full name at the annual awarding ceremonies. At the same time, the Nobel Foundation started providing extensive informational details about this Prize exactly as it did for the five genuine Nobel Prizes. Meanwhile, the Prize was rarely mentioned by its creator and generous funder - the Central Bank of Sweden. The sought-after effect of assimilating the newly created Prize to the Nobel Prizes, or of borrowing "symbolic capital" (Lebaron, 2006), has been achieved at perfection. It could not be denied that the Prize has been a remarkable success to the extent that it led the American Economic

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<sup>1</sup> In line with Alfred Nobel's will, the Prize in Physiology and Medicine is awarded by the Karolinska Institute, the Prize in Literature by the Swedish Academy, and the Peace Prize by a committee of five persons selected by the Norwegian Parliament.

Association to discontinue awarding the Francis Walker medal in 1977 (delivered every five years after 1947).<sup>2</sup>

Furthermore, one could not deny that this realization received support, even though mainly implicit, from the economic profession itself. The Chicago school of economics, said to have monopolized the pool of laureates at some point, and which does not omit to apply the same utility-based cost-benefit analysis to any possible human choice and to almost any social institution, surprisingly has avoided to explain why the Prize was created in the first place, why it was awarded only to men until last year, or why in recent years it came to be shared by three laureates. The so-called scholarly journals have published only one single article about the Prize, in 1985, by Assar Lindbeck himself who at that time served as Chairman of the Prize Committee (Lindbeck, 1985).<sup>3</sup> Published books on the Prize either offer reverential biographical sketches or consist in popularizations of the laureates' theories, the common thread of which is presented as the wish to improve human condition (Zahka, 1992; Wahid, 2002; Colliard et al., 2009; Breit et al., 2010).

Before proceeding further, it is important to offer a justification for considering *the* Prize as an institution that is stable, and which could therefore be viewed as possessing a well-defined, yet to be determined, ideological orientation. As a man-made product, the Prize cannot be expected to be time-invariant. The entire selection process depends on individual value judgments. After examination of around 3000 nominations<sup>4</sup> and consultation with external experts on the short-listed candidates, the Prize Committee drafts a report and submits suggestions to the Royal Swedish Academy of Sciences, which designates the laureate(s) in a plenary session. Currently, the six members of the Prize Committee are designated for three years, but this has not always been the case. The first two Chairmen, Bertil Ohlin and Erik Lundberg, served five-year terms, while Assar Lindbeck remained Chairman

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<sup>2</sup> The American Economic Association continued nevertheless to award the John Bates Clark Medal. This, however, does not contradict the success of the Nobel Prize in economics, to which the John B. Clark Medal is complementary, given that it is reserved to economists below the age of forty.

<sup>3</sup> Lindbeck's article has been updated by Myatt (1991).

<sup>4</sup> By statute, qualified nominators include members of the Academy, members of the Prize Committee, laureates of the Prize, permanent professors at the universities and colleges in Sweden, Denmark, Finland, Iceland and Norway, and other scientists from whom the Academy may see fit to invite proposals. Despite the involvement of foreign researchers, the temptation is strong to consider the nomination process as dominated by the Nordics.

of the Committee for 15 years.<sup>5</sup> The Chairman came 23 times from the Stockholm University, 15 times from the Stockholm School of Economics and 3 times from the Uppsala University. Despite the changing composition of the Prize Committee, it is impossible to identify a decisive swing in its awarding criteria that would result in a noticeable change in the type of laureates selected. For instance, Leontieff and Hayek, as well as Friedman and Simon, have been chosen by the same Prize Committees. If anything, the Committees' chairmen and members appear to come from a homogeneous academic environment. Hence, in spite of the regular changes in the composition of the Prize Committees, the lack of identifiable specific tendencies and moves in orientation suggests that the Prize could be considered as a single stable institution.

As such, the Prize has received some undifferentiated criticisms, primarily through the everyday press. The grand grand-nephew of Alfred Nobel, Peter Nobel, has been emphasizing for the last ten years that the Swedish Central Bank has engaged into a trademark infringement by awarding the Prize to stock market speculators, which did not reflect Nobel's spirit of improving the human condition (Perelman, 2001; The Local, 2005). The Prize Committee is most commonly accused of ideological bias in favor of neoclassical, monetarist and free market approaches developed primarily by American men, and against less mainstream and more socially oriented paradigms, including post Keynesianism, developed by male and female scholars from the developing world (Bergmann, 1999; Brittan, 2003; Henderson, 2004). Thus, the Prize would reflect and reinforce the existing race and gender power hierarchies in economics, and its exclusive focus on social relations in terms of prices and markets would be a barrier to new thinking (Ghosh, 2009). It is quite clear that these criticisms are fundamentally rooted in the Marxist class analysis. In the same way Marxist class analysis correctly identifies the issue of class exploitation as historically prevalent, but provides a faulted explanation thereof (Hoppe, 1990), the Marxist criticism of the Prize is correct in its structure, but faulted in its essence. This article will argue that a review of the Prize Committee's justifications for its choices of laureates, as revealed by its 42 presentation speeches and press releases, demonstrates indeed a clear ideological bias, but only in favor of pro-statist and anti-private property theories.<sup>6</sup>

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<sup>5</sup> After the end of Lindbeck's chairmanship, two short Committees, each of them lasting for 2 years only, were presided by Lars Werin and Bertil Naslund respectively. This may give some credit to Sylvia Nasar's claims that the rules governing the awarding of the Prize have changed since the polemic surrounding John Nash's Prize in 1994.

<sup>6</sup> It seems that the Prize Committee started publishing press releases in 1973 only. Given that they have been growing considerably in terms of explanatory detail about the

This article's attempt to demonstrate the anti-free market bias of the Prize is directly linked to a criticism launched initially by Friedrich von Hayek, himself a laureate of the Prize together with Myrdal in 1974. Hayek's banquet speech focused on two reasons for which he would have decidedly advised against the creation of the Prize, would he have been consulted. The single reason emphasized by Hayek is the high authority the Prize confers on a single individual, which in the social sciences translates into an undeserved strong influence over laymen. The other reason, namely the apprehension that the selection committee may "tend to accentuate the swings of scientific fashion" has been proved unfounded, according to Hayek himself, by his own receiving the Prize. However, Hayek's prize was only the sixth of a long series, and the subsequent 36 prizes awarded to 59 economists offer enough empirical material to reconsider whether Hayek was not too quick to dismiss his own worry that the Prize would be promoting some fashion in economics. This article will argue that the fashion that the Prize promotes is characterized by the use of mathematical models and econometrics, by a misrepresentation of the market process, and by a defense of all forms of government interventionism. Furthermore, the article hopes to offer convincing evidence that statism, i.e. the promotion of government and of collective property at the expense of individual choice and private property, has been the driving force behind the Prize.

## **2. The Prize's Negative Case against Critiques of the Government: Mathematical Economics**

When awarding the first Prize to Profs. Frisch and Tinbergen for their pioneering efforts "in the development of economics into a mathematically-specified and quantitatively-determined science," the Academy took stock of the line of research that had characterized the development of economics in prior decades, namely mathematical economics and econometrics.<sup>7</sup> In particular, the Academy noted that "one essential object [of the laureates' research] has been to get away from the vague, more "literary" type of economics." Hence, from its very inception, the Prize announced its little respect for all scientific achievements accomplished by verbal economists and

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laureates' contributions, in 2000 the Swedish Royal Academy of Sciences decided to start the publication of short papers with detailed information intended for the general public, supplemented by scientific review articles for the specialists. Accordingly, the informational content of the press releases has been significantly reduced.

<sup>7</sup> All references to statements made by the Academy refer to the press releases and presentation speeches of the Prize Committee for the respective laureates. Specific quotations are not referenced individually, as they can be easily identified on [http://nobelprize.org/nobel\\_prizes/economics/laureates/](http://nobelprize.org/nobel_prizes/economics/laureates/).

decided to promote the view that economic science is only mathematics and measurement. From the outset, the Prize appears in radical opposition to a centuries-long tradition in social sciences. It has been promoting the new, mathematical, approach to the study of economic phenomena in two closely inter-connected fields: mathematically formalized theory and empirical research.

### *2.1 Mathematical Instruments in the Economist's Toolbox*

The contributions to mathematically formalized theory that have been rewarded by the Prize are overwhelming. Hicks and Arrow in 1972 received the Prize for renewing and extending general equilibrium theory through traditional differential analysis and more modern mathematical methods. The next year, Leontieff was distinguished for his mathematically and statistically formulated input-output model of inter-sectoral relations in the structure of production. In 1975, Kantorovich and Koopmans received the Prize for applying linear programming methods to the problem of allocating resources. In 1983, the Prize went to Debreu for having incorporated new analytical methods, i.e. the mathematical theory of sets, into economic theory. In 1988, Allais was praised for his rigorous mathematical description of a market economy. The Prizes of 1994, 1996 and 2005 went to game theorists for their formal, i.e. mathematical, analyses of strategic interactions. Many of the other Prizes, while not awarded exclusively for advances in mathematical economics, explicitly mention formal analysis or the expansion of the economist's toolbox among the laureates' contributions.

The Prize committee's choice to promote formal mathematical analysis is not a mere matter of method; it has important implications as to the scientific content and substance of the distinguished contributions. A major problem with the construction of social theories on mathematical foundations lies in the latter's complete independence from and indifference to human action. By themselves, abstract mathematical categories cannot account for the real-world purposeful human behavior (Mises, 1998, p.99). The essence and consequences of different types of action cannot be fathomed by means of mathematics at all. Moreover, a formal mathematical analysis could actually lead to effective loss of knowledge. A case in point is the vanishing of the fundamental distinction between voluntary exchange and forced transfers, so much present in the pre-mathematical verbal economics. This one dimension of human action cannot be accounted for by mathematical economics, as exemplified in particular by game theory.

The so-called non-cooperative game theories, which have been the core of this discipline and the justification for giving the Prize to Nash, appear

*prima facie* inappropriate for representing the market process. After all, market exchanges are by definition cooperative, as they presuppose the respect for the exchangers' and third parties' property. Accordingly, non-cooperative action implies either isolated, i.e. autistic, action or violation of private property. What game theory has achieved is to completely dilute these important distinctions. Competition between buyers and sellers has become to be represented as a trade war, and analyzed as if it were a case of armed conflict over a piece of property. Similarly, the imposition of a tax or of a regulatory norm by the government is now analyzed exactly as if it were a case of peaceful exchange between the taxed and the taxpayer. The end result is not only a misrepresentation of social cooperation and loss of the crucial insight that private property is fundamental for a society to flourish; government is *de facto* legitimized, as its aggressive and anti-private property nature is being watered down. Hence, mathematical economics is not neutral with respect to the scientific conclusions it reaches.

With respect to the validation process of its conclusions, mathematical economics faces a fundamental problem: the issue of causality. If mathematics is indifferent to the category of causality, as it is, how then could a social law, i.e. a definitive causal relation between social phenomena, be established? Here steps in the second leg of the mathematical economics promoted by the Prize, namely empirical research.

### *2.2 Empirical Research and the Relativism of Positivism*

Almost every award attribution mentions the empirical base of the laureates' scientific work. Moreover, a substantial number of Prizes have been delivered exclusively for advances in econometrics, i.e. the area of statistical methods for treatment of data. After the initial Prize to Frisch, who had been the founder of the Econometric society in 1930, the 1980 Prize rewarded Klein for his pioneering construction of econometric macro-models, used as instruments for forecasting and policy making, and for his internationally disseminating macro-models. As a complement to macro-econometrics, micro-econometrics was rewarded by the 2000 Prize to Heckman and McFadden for their development of statistical tools for coping with discrete individual choices. In 2003, Engle and Granger were distinguished for introducing new methods for dealing with time-varying volatility and common trends in time series. In 1993, Fogel and North were rewarded for their application of econometric methods to economic history, better known as cliometrics. But the most representative of all Prizes to econometrics is the 1989 award to Haavelmo for his clarification of the probability theory foundations of econometrics. The Prize to Haavelmo is as far as the

Academy has ever gone in the field of epistemology, which makes it worth examining in some detail.

From the outset, the Academy declares that economics is an empirical science, the development of which is based on at least two fundamental requirements. One of these requirements is the creation of “theories which reflect reality.” These theories are the aforementioned formal mathematical models. The other prerequisite is a “methodology which can be used to quantify and test theoretical relations on the basis of empirical observations.” Furthermore, the testing of economic theories faces a fundamental problem related to the lack of full conformity between economic relations and available data. This is due to the fact that “underlying individual decisions are affected by numerous determinants which we are unable to take into account when formulating our economic relations.” It is for his proposed solution to this very problem that Haavelmo was distinguished. The solution he offers, and which is characteristic of the economic science that the Prize is promoting, consists in the re-formulation of economic theories in probabilistic terms. And the Academy to conclude, that “Methods used in mathematical statistics could then be applied to derive stringent conclusions about underlying relations from the available random sample of empirical observations.”

The Prize hence promotes positivism, without ever naming it. It *de facto* denies the possibility to arrive at universally valid economic laws by the use of simple logic and through our teleological understanding of human action. It adheres to the view that knowledge in the social sciences is to be acquired through the same methods that are used by natural sciences. One of the implications of this approach to economics is the relativism of the results of research, as another random sample of data, derived from other individuals or at other times, could confirm different, if not opposite, theoretical relations. This is actually revealed in a number of Prizes with conflicting results. The 1993 Prize was awarded to Fogel and North for, *inter alia*, finding out that technological change was not essential, i.e. statistically significant, for productivity increases and growth. This is in direct contradiction with the 1987 Prize to Solow, equally distinguished for his empirical research on the problem of growth, who found out that technological change was accounting for two thirds of economic growth. Similarly, the 2004 Prize was awarded to Kydland and Prescott for having “demonstrated that shocks on the supply side may have far-reaching effects. In their business cycle model, realistic fluctuations in the rate of technological development brought about a co-variation between GDP, consumption, investments and hours worked close to that observed in actual data.” This, of course, is in stringent opposition to the view that business cycles are caused by demand shocks, and which

underlies the work on stabilization policy by Friedman, rewarded in 1976, by Ohlin and Meade, rewarded in 1977 and by Mundell, distinguished in 1999.

But these contradictions, which are the necessary implication of the relativism of mathematical economics, seem not to bother the Prize committee. This relativism is even used to put into question the validity of some approaches that are critical about government policies. Thus, in 1982, while rewarding Stigler, *inter alia*, for his empirical work on economic legislation as being designed by the government to favor special group interests, the Academy qualified that “The extent of validity of this hypothesis is still unknown.” For sure, this is a clear negation of the possibility to arrive at some general and universal propositions about government regulation, and hence to make a logical critique of government. In a sense, by promoting the type of fashionable mathematical economics, the Swedish Academy has been making the negative case against critiques of the government. Moreover, the Academy has been much more active in making the positive case for government interventionism through the specific content of the economic contributions it has chosen to distinguish.

### **3. The Prize’s Positive Case for Government Policies: the Faulty Market**

In their substance, the distinguished theories cover an extremely wide range of economic disciplines, which include general equilibrium theory, social choice theory, growth theory, theory of the firm, monetary theory, international economics, economics of information, and finance. The vast majority of rewarded contributions, while pertaining to different fields of scientific investigation, and hence raising different questions, share in common two basic views, which will be addressed separately in the next two sub-sections. According to the first view, the market process is inefficient. According to the second view, the failures of this inefficient market process need to be corrected, and government policies are potent and well suited for achieving this goal.

#### *3.1 The Inefficiencies of the Market Process*

At the surface, the Prize committee pays due tribute to Adam Smith’s demonstration of the spontaneous coordination brought about by the market process. All distinctions attributed to contributions in general equilibrium theory establish such a positive link to Smith. However, there is a nuance.

The Prize committee believes that the invisible hand of Smith is operational only under some ideal conditions. The real world is full with imperfections, which are sources of market inefficiencies. This view has been

expounded by the Prize committee in 1983, when, while rewarding Debreu for “establishing the conditions which guarantee that the price mechanism brings about an efficient utilization of resources,” the committee quickly clarifies that “this does not necessarily imply a recommendation for *laissez-faire*” because “there remains the empirical task to assess the extent to which these conditions are fulfilled in an actual economic system.” A non-negligible number of Prizes have been won precisely by economists who have developed rationalizations for the alleged market imperfections.

Already in 1972, Arrow is distinguished, *inter alia*, for having demonstrated that “there exist general tendencies towards in-optimality in the allocation of resources between research and investments in real capital.” In 1982, Stigler is rewarded for having established the area of economics of information, which explains price rigidities and “provides a significant point of departure for current research on the ultimate origins of unemployment and inflation.” In 1996, Mirrless and Vickrey are distinguished for their demonstration that imperfect information may imply a socially inefficient distribution of resources, because of the strategic exploitation of an information advantage by one of the parties to a transaction. In 2001, Akerlof receives the Prize for extending this view: the market might actually not even come into being, as informational asymmetries could prevent mutually beneficial transactions from occurring in the first place. There could be spontaneous mechanisms for solving this problem, but they would be costly themselves, which would again mean that the allocation of resources by the market is somehow inefficient. In 2007, Hurwicz, Maskin and Myerson were distinguished precisely for their contributions to designing institutions with the view to prevent an outright failure to transact or “possible negative side-effects on others and on the environment,” better known as mechanism design theory. The transaction costs for which Coase received the Prize in 1991 also imply in the committee’s own assessment that the administrative management of resources, in some conditions, is more efficient than an allocation of resources that relies on the price mechanism. Finally, the latest 2010 Prize to Diamond, Mortensen and Pissarides rewards a research paradigm that focuses on “markets with search frictions”, i.e. ‘markets’ where lack of matching prevents otherwise mutually beneficial transactions from occurring.

In a nutshell, the Prize has rewarded abundant contributions to the market failure doctrine. Studies of government failures, or of market successes, have not won the committee’s appreciation to any comparable degree. Thus, when enumerating Coase’s contributions, the committee simply omits to mention the laureate’s work on the market’s capacity to provide public goods (Coase, 1974). And it finds in Buchanan’s analysis of the

political process the strongest possible critique of governments' capacity to deal with market failures. What is the essence of Buchanan's public choice analysis? That the political process of taxation and redistribution is based on mutual benefits and voluntary agreement, and hence complementary to, rather than structurally different from, the economic process. As a matter of fact, no Prize has been awarded yet for an in-depth analysis of the essence of government and the consequences of its policies. Indeed, such a Prize would contradict the committee's praise for contributions to the theory of macro-managing the economy.

### *3.2 The Efficiency of Macro-managing the Economy*

The simplest dimension of the theory of economic macro-management is stabilization policy. A stabilization policy is followed by the government in order to smooth the fluctuations of economic activity over the cycle. Its focus is the goal to reach full employment of productive resources, especially labor. The very notion of stabilization policy, and its analysis in aggregate terms, is inherited from the so-called Keynesian revolution. The Prize committee has taken an apparently ambiguous position on the issue of stabilization policy efficiency.

The 1976 Prize distinguished Friedman for having brought in the debate on stabilization policy the importance of money and of unpredictable time lags in the response of the economic system to policy stimuli. Friedman's main theoretical conclusion is that a reduction in unemployment could be engineered only through a rising inflation rate, on which he bases his policy advice that the money supply should grow at a constant rate. The 1999 Prize rewards Mundell for having integrated external trade relations and capital movements into the analysis of monetary and fiscal policies. With Mundell, the efficiency of stabilization policy even becomes the main determinant of the optimal size of geographical areas on which a single currency should be used. The Prizes to Friedman and Mundell should not be understood, and are definitely not presented by the Academy, as criticisms of the crude Keynesian view that deficit government spending can stabilize an economy. Rather, they reward theories which are accepting the essence of the Keynesian approach and are trying to render stabilization policy even more efficient, taking into account additional sophisticating factors that have been neglected by Keynes.

The Prize committee has taken an apparently different stance in later years. The Prize to Kydland and Prescott in 2004 clearly acknowledged the failure of Keynesian-type countercyclical policies which had resulted into stagflation. The Academy distinguishes Kydland and Prescott for having

integrated expectations into the analysis of stabilization policy and for showing that “society could gain from prior commitment to economic policy.” Similarly, Phelps is rewarded in 2006 for his analysis of inter-temporal tradeoffs in macroeconomic policy, which conditions the success of future policy moves on prior policy actions through individuals’ expectations. The integration of expectations into the analysis has had, however, a very limited impact on the assessment of economic policy. The recognition that isolated and discretionary policy actions may be inefficient did not lead the Prize committee to reject stabilization policy from the outset. Rather, it moved it to the view that policy actions at different times should be coordinated, and that this inter-temporal consistency would then lead to guaranteed efficiency. What appears to be a critique, but actually is a rehabilitation of stabilization policy, has its roots in the so called Lucas critique of macroeconomic models, which the Prize committee eventually endorsed in 1995.

The hypothesis of rational expectations, for which Lucas was distinguished in 1995, had actually been rejected implicitly by the Prize committee in 1981, when Tobin was congratulated, *inter alia*, for having referred to the stickiness of wages in his refutation of the rational expectations assumption. It is not excluded that the Academy decided to reward Lucas only after it became increasingly clear that rational expectations are an all-purpose assumption that could integrate into, and even reinforce the conclusions of, Keynesian models (Gertchev, 2007). The Lucas critique states that, because individuals can anticipate correctly the results of policy actions, and hence change their behavior accordingly, the structural relations assumed by macroeconomic models, and used for policy making itself, may not hold true. This critique appears to be relatively weak for at least two reasons. First, it misses the essentialist point that economic policy must be constrained by the economic laws implied from the reality of human action. Indeed, if this were not the case, economic relations would be contingent upon the will of the policy makers, and it would be meaningless to speak of economic science at all. Second, and because it does not adopt this essentialist approach, Lucas’s critique focuses exclusively on the technical problems of how to construct formal models, and which econometric techniques to use, in order to get a specific form of expectations into the model. The end result is not a critique, but a reformulation of macroeconomic policy.

Stabilization policy is only one dimension of the theory of macro-managing the economy. A much more abstract, but crucial, aspect thereof is the so-called welfare, or social choice, theory. In a nutshell, social choice theory studies collective actions and establishes the conditions under which

individual choices could be considered as socially optimal, i.e. as promoting society's welfare. Social choice theory offers a fundamental justification for any policy action taken by governments, among which stabilization policy is only a subset. Hence, it is important to discuss the Prize committee's views on welfare theory.

For any student of marginalism, social choice theory appears as an intellectual aberration. If individuals' wellbeing could not be compared in any meaningful sense, both in space and time, how then could the very notion of social welfare be conceived of? The Prize committee in 1972 rewarded Arrow for a critique in this direction, which nevertheless seems to be noticeably mild. Arrow showed that, if individual preferences are assumed to possess a number of mathematically determined qualities, then social choices must be taken by a single will and imposed upon society, if society's preferences are to possess the same mathematical qualities as individuals' preferences. In other words, Arrow was rewarded for having shown that dictatorial central planning is the decision process which is most compatible with mathematically formulated general equilibrium theory. It may be worthwhile mentioning here that the early Prizes have shown a lot of sympathy for the Soviet Union. In 1971, when rewarding Kuznets, the committee congratulated the Soviet Union for its economic performance: "Japan, with its sixfold increase of production per capita in two decades, West Germany and the Soviet Union have established a clear lead since the war." In 1975, Kantorovich is distinguished for his influence on economic debate in the Soviet Union. The Prize committee laudably reported at that time the findings of the Soviet mathematical school that a successful reform of the central planning technique requires "a rationally constructed system of prices, including a unique rate of interest." As a matter of fact, the early Prizes have been all focused on the possibility for, and techniques of, central planning. This ideological orientation could also explain why, from the Austrian school of economics, Ludwig von Mises never got the Prize, and why instead Hayek, whose critique of socialism is significantly less radical, was distinguished. Actually, from the wording of the Prize committee, one wonders whether Hayek has been rewarded for criticizing the very possibility for rational central planning, or rather for making contributions in that direction: "He [Hayek] evolved new approaches in his examination of fundamental difficulties in "socialist calculation" and investigated the possibilities of achieving effective results through decentralized "market socialism." The distinction by the Prize committee of Arrow's findings in social choice theory must be seen and interpreted precisely in this context of a favorable bias toward central planning.

Even though central planning has been discredited by reality itself, the Prize Committee did not see in the failure of collectivism an empirical refutation of social choice theories based on aggregation of individual preferences. In 1998, it even rewarded Sen for his work on reasonable comparisons between individual preferences. These reasonable comparisons bypass Arrow's critique and provide theoretical foundations for reconstructing social preferences out of aggregation among individuals, notably through the democratic political process. Welfare indexes, with the view of carrying out country comparisons, could then be constructed. Again, for the student of marginalism, Sen is distinguished for having rehabilitated welfare theory, which took a blow from Arrow's critique, on grounds that are clearly contradictory with the notion of subjective preferences. On which objective, and neutral to individuals' preferences, basis could one consider that some comparisons of utility are reasonable and consistent, while others are not? Sen is congratulated by the Committee for "having applied a consistent approach in [your] studies of social choice, welfare measurement, and poverty." The core of the matter is quite different, namely that Sen's studies are incompatible with the theory of human action in general, and subjective utility in particular. However, whatever the scientific validity of Sen's work, it could not be denied that his conclusions provide an intellectual justification, apparently welcome by the Prize committee, for policies pursued by democratically elected governments.

#### **4. Conclusion: Does the Economic Nobel Prize Promote Truth?**

This article tried to show that the Prize committee, by its choices of laureates in economics, has promoted scientific endeavors, which minimize the importance of the market process and support the rise of governments. In addition, one should also pay attention to some additional rhetoric used by the Prize committee, and which again reveals a clear bias against markets and in favour of governments. When referring to Hayek's contributions to business cycle theory, the Committee merely noted that "his theory of business cycles and his conception of the effects of monetary and credit policies attracted attention and evoked animated discussion. He tried to penetrate more deeply into the business cycle mechanism than was usual at that time." This carefully chosen formulation leaves it unclear whether the Prize committee considered Hayek's attempts successful or not. The next year, however, when contributions to the theory of optimum allocation of resources were distinguished, the Committee clearly indicated that Kantorovich and Koopmans "have been able to achieve highly significant results." Furthermore, observe the difference with the Committee's statement from 1979 when it distinguished Lewis, who "has come to be known for two

explanatory models which with the simplicity of genius mark out the causes of poverty among the population of the developing countries as well as the factors determining the unsatisfactory pace of development.” In substance, Lewis is a genius for having shown that poverty could originate inside the market process, from differences in productivity between market participants, and of course for having neglected the possible link between poverty and government policies. For the sake of another example, Mundell’s research agenda, by the way significantly influenced by a stay at the IMF in 1961-1963, is given the status of a quasi-prophecy: “The questions you asked anticipated important changes in monetary arrangements and capital markets with almost prophetic foresight.” As an additional evidence for the pro-government rhetoric one could refer to the two Prizes in finance to Markovitz, Miller and Sharpe in 1990 and to Merton and Scholes in 1997. A fundamental assumption of finance theory is the existence of a risk-free asset. While this assumption is very much questionable, in both cases, the Prize committee did not omit to mention that the risk-free asset did exist and that, in practice, it was the Treasury bill.

The most fundamental problem that such a pro-government and anti-market bias is causing for a Prize that claims to be scientific is its relation to truth. The single goal of scientific research should be the discovery of new knowledge, either through correcting past errors or through the discovery of previously unknown truths. Truth, however, does not appear to be a primary concern for the Prize committee in economics. In his article on the Nobel Prize, Lindbeck summarized the committee’s criteria for selection of the laureate in the following way: “It is also clear that the prize awarding authority has tried to favor “constructive” contributions rather than contributions that are “destructive” in the sense of mainly launching criticism that does not lead anywhere. To provide “shoulders” on which other scholars can stand, and thus climb higher, has been favored over attempts to show that “everybody else” is wrong, or that the world is so complex that simple and coherent analytical structures are useless. Skilful polemics that do not seem to push research forward have not been regarded as worthy of being honored.”

This comment reveals that the actual goal of the Prize committee has been to promote skillful research according to the mathematical fashion, whatever its validity. The subsequent neglect for truth is essentially a reflection of the Prize committee’s endorsement and uphold of the statist agenda.

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