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Review Essay

The Nobel Prize in Economics: Behind the Aura

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Avner Offer and Gabriel Söderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn*, 2016. Princeton, NJ: Princeton University Press. 400 pp. £18.74 hardcover.

In *The Nobel Factor*, Avner Offer and Gabriel Söderberg help us to understand the politics behind the awarding of what is colloquially known as the Nobel Prize in Economics (and more correctly as the Swedish Central Bank Prize in Honour of Alfred Nobel). The main idea of the book is that the Prize has been often awarded to market-oriented thinkers with the aim of undermining social democracy, of which Sweden was the most famous exemplar, in favour of market principles. This rather local agenda, pressed by the influential economist Assar Lindbeck (and presumably by others, although they receive less attention in the book) was, the authors argue, crucial to explaining the pattern of awards. The authors go so far as to contrast Economics with Social Democracy, in the process identifying the discipline as a whole with its most market-oriented strand. The authors recognize that there were other elements within modern economics, but argue that the 'high theory' of neoclassical economics, interpreted as making the case for the optimality of markets, was greatly bolstered by the prize, especially after its first decade (when social democratic stalwarts such as Gunnar Myrdal won it.). The preponderance of University of Chicago faculty members among winners in the later period is one indication of this tendency, although the presence of exceptions even in the later years (notably Amartya Sen) is acknowledged (pp. 122–23). The authors state that 'from an ideological point of view, the Nobel Committee was even-handed in its awards, but the balance it achieved was biased to the right in comparison with opinion within the discipline, especially during the 1990s' (ibid.).

The proposition that the pattern of prizes awarded reflected an *agenda* to change Swedish society should be distinguished from two others, each important in their own right, and distinct but potentially causally interrelated,

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that can be identified, namely 1.) that the prizes awarded actually *did* have the intended effect, or indeed any specific effect, on public policies shaping society (in Sweden or more generally), and 2.) that the pattern of the prizes awarded shaped the economics discipline, perhaps by offering prestige and authority to particular ideas or by shaping the activity of prize seekers. The authors do not for the most part address these two propositions, which involve distinct and difficult problems of historical and counterfactual analysis. For instance, showing that the prize actually did have a specific effect on public policies would require demonstrating the influence of particular ideas, or of the increased prestige attached to them, on social or institutional actors, through tracing the processes involved, and not merely to demonstrate that a societal change had occurred in the required direction, as such a shift may have been driven by other causes. Similarly, showing that the prize had a specific effect on the economics discipline would require demonstrating the impact of the prize on the influence of winners, on the activities of aspirants, on the organization of the discipline, etc. A fuller examination of the Nobel Prize in economics would potentially address these and other questions. Even if there is good reason to believe that such an examination would be fruitful, it is another matter to document evidence of the relevant pathways.

The authors contrast the pragmatic approach of Social Democracy — which we might think of as economic practice in search of economic theory — with the theoretical approach of market-oriented economics — which we might think of as economic theory in search of economic practice. Social democracy provided a series of institutional solutions to problems such as that of how to ensure risk sharing across individuals, how to encourage productivity-enhancing investments in human beings, or how to structure responsibilities and rights in inter-generational relationships. Its institutional approaches, responding to felt needs and to particular demands, evolved in a crucible of pragmatism. 'Trade union economists' and political activists engaged in a cut and thrust and formed pragmatic compromises with business interests and their advocates, and analysed the circumstances of the economy. However, they did not provide an economic case for social democracy that was comprehensive or that was derived from any kind of first principles (p. 176). Insofar as an intellectual case was provided for the system, it was social and political.

Social Democracy addressed real problems with real solutions but for the most part did not provide and was not supported by an economic high theory. Even today, the economic case for social democracy is based upon a hodgepodge of models and arguments. In contrast, the advocates of market-oriented economics appeared to provide a credible economic case against Social Democracy inasmuch as their theoretical utopia presented a comprehensively conceived world in which the first-best outcomes could be arrived at through forward-looking individual, and individualistic, contracting in a marketplace. Such decentralized marketplace activity was presented as making Social Democracy largely unnecessary, as within the proposed theoretical universe it could at best reproduce the outcomes of a suitably organized market economy. If forward-looking contracting among individuals would not suffice to bring about desired results, select market regulations (e.g. to internalize externalities) and some initial redistribution of assets (to implement the desired Pareto optimum, as per the second theorem of welfare economics) would act as a sufficient corrective. Economic theory interpreted in this way largely supported the superiority *in theory* of the market system. That is to say, the market system was superior according to the theory when all of the obstacles to that superiority, even in theory, had been cleared away.

For example, general equilibrium theory could be interpreted as assuring the optimality of market outcomes (as opposed to clarifying the stringency of the conditions needed for it) on the condition that all of the impediments, such as missing markets, were first brushed aside within the theory itself. In contrast, the case for social democracy was precisely based on the pervasiveness of those 'deviations' from market optimality which were ignored. The purported optimality of the economic outcomes generated by the market also depended, of course, on focusing on narrowly conceived economic outcomes, neglecting the social, cultural and political elements of the social-democratic programme.

Lindbeck himself, although prolific, was less an intellectual leader than a representative of the market-oriented intellectual current. Influenced by his exposure to American economics,[1] he was also a policy entrepreneur, who as winds shifted made common cause with economists and policy advocates who shared his prejudices in think tanks, business and government. It would appear difficult to say whether ideas, interests or events were the leading factor in initiating the changes Sweden experienced and the concomitant halt of the advance and even rolling back of social democracy. The evolution of Sweden's economic institutions and policies, from the 1980s onward, paralleled that of other countries undergoing similarly tectonic shifts in the assumptions of economic policy. Sweden's change of direction was qualitatively dramatic, in light of its prior trajectory, even if not as quantitatively sizable.[2]

As the authors document, the Nobel Prize committee gave pride of place to technical achievements, emulating the tendency within US academic economics. The price of doing so was at times gross unrealism, which was at times apparently difficult even for the committee to accept (as in the case of

1. The book notes that he visited Yale, Michigan, Columbia and Berkeley between the late 1950s and the late 1960s (pp. 180, 185).
2. The Gini coefficient for income in Sweden fell sharply from 1960 to 1980 (from 0.33 to 0.23) and then subsequently consistently increased in the interval between 1980 and 2015 (from 0.23 to 0.27), according to the Global Consumption and Income Project, drawing on data from the LIS Cross-National Data Center and the European Union Statistics on Income and Living Conditions.

'rational expectations', for which the prize went only after Lindbeck's resignation from the committee). The stark incoherence reflected in the awarding of the Prize to economists espousing diametrically opposed views (as for instance in the awarding of the prize to Eugene Fama and Robert Shiller) was a further consequence; without realism as an anchor, seeming technical sophistication could be an attribute of many specific models and theories. The questionable scientificity of the Prize awardees, despite the technical cloak, became increasingly evident to observers in the 1980s and 1990s. The Prize's seemingly political nature, emphasized by the pro-market messages of many awardees, added to doubts about its intellectual justification. It was looked at askance by members of other disciplines, in particular in the sciences, in the Swedish Academy and beyond. The supposed magnitude of the achievements of Prize winners often proved difficult to communicate.[3] The success of the Prize in receiving attention from the general public and in the economics discipline did not diminish these concerns.[4] The authors make a case that the Swedish Riksbank (the central bank) began the Prize with an element of accident (initially to use an unexpected budget surplus that coincided with its centenary) although not insensible that it would also help to shore up its claims to greater independence from government (a debate that it had recently been losing) by establishing the autonomy and status of 'economic science'[5] (pp. 88–106). The Riksbank has received a benefit out of all proportion to its investment in terms of attention and enhanced legitimacy and prestige, in Sweden and beyond.

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3. Stanislaw Ulam is said to have challenged Paul Samuelson to 'name me one proposition in all of the social sciences which is both true and non-trivial', to which the latter reported that he, after some years, offered the principle of comparative advantage (Samuelson, 1969: 9). It may be argued that many of the achievements of Prize winners do not meet this test. The Nobel Committee itself referred in its press release on the award to Harry Markowitz to the idea that 'all the eggs should not be placed in the same basket', and suggested that he had merely taken this insight, which had already existed on a more 'general level' and made it more specific and 'rigorous' (see www.nobelprize.org/prizes/economics/1990/press-release/). Similarly, the Nobel Committee referred in its press release to Franco Modigliani's life cycle hypothesis as the thought that the individual, when young, 'builds up a stock of wealth which he consumes during his old age' and similarly noted that the achievement was 'primarily in the rationalization of the idea into a formal model' (see www.nobelprize.org/prizes/economics/1985/press-release/). Whether these statements are even stably true, let alone also non-trivial, can be questioned. It has unsurprisingly proved difficult to combat the scepticism of non-economists with such examples.
4. The early Prize winner and local favourite Gunnar Myrdal was sceptical about the prize and 'regretted having accepted it himself' (p. 194) while his co-Prize winner Friedrich Hayek 'questioned the "scientistic" pretensions of the Nobel Prize') (p. 130). The existence of the Prize and its awards have consistently attracted criticism from natural scientists in the Academy and other prominent voices in Sweden. 'Peter Nobel, a scion of the Nobel family, likened economics to a cuckoo's egg in the Nobel nest' (p. 259).
5. According to the research of the authors, Assar Lindbeck was present at the very earliest discussions proposing a Prize, although the idea may have come from the then Riksbank governor, Per Åsbrink (p. 101).

The authors attempt to supplement archival work, interviews, news reports and other sources of knowledge with their own laborious quantitative investigations, in particular of how the Nobel Prize either reflected or contributed to the standing of economists as revealed by citation flows and other information. Their findings, such as that the Nobel Prizes failed to recognize many of the most influential economists as assessed by citations, are however at most suggestive of the selectivity and of the possible political biases of the committee. The strength of *The Nobel Factor* is less in such quantitative work than in its construction of a plausible narrative to describe some of the causes of the trajectory taken by the givers of the Nobel Prize, that brings together the 'micro-' of the committee's workings (e.g. information on the lives, perspectives and milieu of individuals who belonged to it, in particular Lindbeck, or the debates arising over awarding the Prize in specific cases) with the 'macro-' of background economic contexts, institutions and policy debates. What is missing, unfortunately, is an account of the processes of deliberation that gave rise to the decision to award the Prize to a particular person, either in general or in specific cases. It appears that the real workings of the Nobel Committee have remained quite opaque even to the authors. (This might be viewed either as a measure of the success of the confidentiality of the Prize system, or of its sheer unaccountability.) As a result, the suggestion of political bias is difficult to validate. A complication making it difficult to disentangle factors is that highly technical economics and a political preference for the market were often coincident, not only in the case of a number of individual awardees, but arguably in the forms of mainstream economics that became increasingly dominant in the 1980s and 1990s, especially in the United States.

The authors make a case that the Nobel Prize has very often bolstered the prestige of economic theories that play a quietist role, and that legitimate unequal outcomes and the gutting of the institutions and processes that serve the common good. This may not be the intent of those who frame such theories, and an intellectually subtle reading of their ideas may not reduce them to such an effect, but this may nevertheless be the case when their ideas are viewed from the standpoint of their 'reception' in the world, or in the larger historical perspective of which ideas they replace or with which they compete. The authors thus use the term 'Just World Theory', borrowed from social psychology, to refer to market-oriented economics, arguing that it has the function of proposing that 'everyone gets what he deserves' (p. 3). The justification for the loss of nuance as a result of making a sweeping contrast between (market-oriented) Economics and Social Democracy is to bring this point into high relief.

A question woven into the authors' critical assessment of the Nobel Prize is that of the form of knowledge that Economics should be taken to represent (e.g. as art, craft, science or technology). The Nobel Prize has seemingly come, by and large, to take the side of the image of economics as science in the sense represented by the natural sciences (and thus coming closest to the 'Anglo-Saxon' understanding of science, as arriving at law-like knowledge, contrasted with the 'Continental' conception of a systematic pursuit (as embodied in the German idea of *wissenschaft*). The authors touch on this leitmotif throughout and conclude, in a chapter entitled 'Like Physics or Like Literature?', with an eloquent plea to restore the balance, recognizing the role of diverse forms of inference and knowledge creation which have been side-lined or altogether banished from the methodological repertoire of mainstream economists. Methods such as direct observation and open-ended interviews, institutional analyses, comparative and historical investigation using archival and other methods, and normative reasoning, recognizing the inevitable role of judgments and values in economic arguments, might all be given their due. In making such a prescription, the authors are in line with earlier and now marginalized traditions of economic knowledge, represented by the classical political economists, earlier generations of historical and institutional economists etc., as well as with the traditions of studying the economy in other disciplines. They seek to bridge the gap between economics and the other social sciences, history and philosophy, while also giving adequate room for up-to-date forms of technical analysis to play an appropriate role, as part of a new synthesis. It seems difficult to reject this attractive vision.

For students of development, the penultimate chapter of the book will be of special interest. (There are some discussions related to development elsewhere in the book, notably in relation to the controversy surrounding the awarding of the Prize to Milton Friedman.[6]) The authors describe how the theory of project appraisal, like the theory of optimal taxation (both associated with Prize winner James Mirrlees), reflects a 'schizophrenia' (p. 232) that on the one hand makes idealized and patently unrealistic assumptions in order to generate a tractable model and on the other hand makes departures from the ideal in the name of realism. Such selectivity is part of the art of modelling but, the authors suggest, can also function ideologically, supporting the ability of economic theory to generate desired (market-oriented) conclusions when applied to policies (pp. 21, 231–33). In contrast, an adequate recognition of the non-ideal nature of the world, as recommended by economists' own 'theory of the second best', would necessarily lead to more varying policy conclusions. In particular, it would require sacrificing the claims to generality of market-oriented prescriptions (pp. 230–33).[7]

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6. This controversy was related to a rushed procedure and lack of consultation within the Swedish Academy on the awarding of the prize to Friedman (criticized for that reason by Myrdal and other members of the Academy) but also, and ultimately, to Friedman's unpalatable engagements in Pinochet's Chile (which he shared with James Buchanan, Hayek and other Prize winners).
7. In the area of project analysis, the market-oriented OECD guidelines proposed by I. M. D. Little and James Mirrlees met their match in the more second-best or realist UNIDO guidelines proposed by Partha Dasgupta, Stephen Marglin and Amartya Sen, in one of the great intellectual contests of the high theory of development, taking place in the early 1970s.

The chapter discusses at some length the Washington Consensus. The authors point out that its policies, perhaps best summed up by the maxim, 'stabilize, liberalize and privatize', were not fully supported by mainstream economic theory, which recognized many reasons for demurral from such a prescription (such as the already mentioned theory of the second best) (pp. 230–33). Nevertheless, the same market-oriented policy fundamentalism that underpinned the attack on social democracy also fuelled the demand for a comprehensive rolling back of the state in developing countries. The authors point out that this did not have the expected results, not least because of the unanticipated role of corruption on a grand scale in the newly 'liberalized' economies. (Here, the authors are too limited in their vision, focusing on one source of underperformance in the aftermath of structural adjustment and largely ignoring the other weaknesses of the prescription.) The link between market-centric economic high theory in the abstract and market-oriented policy prescriptions in the concrete, is an imperfect one, in development as in other domains. The authors can sometimes be too breezy in seeming to suggest that a direct connection exists. The relations between the rise to dominance of particular tropes and theories in academic life and the prestige of particular policy prescriptions with which they at most enjoy an 'elective affinity' requires an adequate uncovering of the sociological and institutional processes that link them. Otherwise, the case can be circumstantial and as a result it can become more difficult for the critic to refuse the charge of having an ideological motivation. The authors describe the effort of the 'think tank agent', emboldened by big money, in pressing the case for market-oriented reforms (p. 236).[8] However, it seems unreasonable to suggest that advocates of such policies have only been hired guns. There are enough who have done so because they were convinced that market-oriented policies presented a better course. It is also true that those who embraced neoclassical economics as a foundation for policy analysis did not all subscribe to the same policy conclusions.[9]

Observers of neoclassical economics and neoliberal policy discourse would be hard-pressed to deny that these two discursive streams have often commingled. However, the way in which we think of their relationship must

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The work of Joseph Stiglitz from the 1970s onward provides a landmark example of the application of 'second-best' reasoning (based on the presence of information constraints) to diverse situations (codified and generalized in his subsequent theoretical work with Bruce Greenwald).

8. An unfortunate error is that the authors refer to Peterson as having given 'a billion dollars to the Institute that employed Williamson' and having 'added his name to the masthead' (p. 236). In fact, a very much smaller amount went to the Peterson Institute for International Economics, as distinguished from the Peter G. Peterson Foundation.
9. There are of course issues of definition. Joseph Stiglitz has often referred to information economics as being at odds with neoclassical economics, for example, whereas others view any framework that centres on individual maximization and equilibrium under this heading. For a description of a prominent statement against neoliberal policies signed by a number of 'neoclassical' economists (notably Frank Hahn), see Neild (2014).

also capture the gaps and slips involved. Indeed, John Williamson, the author of the concept of the Washington Consensus, is said by the authors to have 'conceded that its prescriptions have no foundation in theory', in a quotation in the book that underlines that the embrace of market-oriented policies has been at best a matter of practical judgment and not of deduction (p. 88).[10] This is not then an instance of policies being peddled despite their having no foundation in theory, as much as it is one of a congeries of ideas hanging together closely: a particular set of practical judgments about the world (e.g. concerning the role of monetary incentives and the limitations of state capacity), a theoretical framework given unique prestige and primacy (involving methodological and possessive individualism, maximization, equilibrium), and a set of policies to be promoted, and contrasted with those argued to have 'failed' according to the preferred criteria. The authors do not also mention that Williamson's later work on the subject shows some recognition of the need to temper the more extreme forms of market fundamentalism, by providing for a state role in governance of the economy and in social investment. It should also be noted that Williamson was largely describing the beliefs he deemed to prevail in the Washington-based institutions and not always directly promoting them. It is an interesting question, and difficult to assess, whether those ideas would have had the sway they had were it not for their patina of intellectual sophistication as well as worldly wisdom, in which the often harshly enforced hierarchies of the economics discipline, of which the Nobel Prize sat at the apex, played the role that it did. The discussion of the Washington Consensus in the book is perhaps the most weakly linked to that of the Nobel Prize. It may play a useful role as an illustration of the relation between economic theories and economic policies, but would have benefitted from a more thorough analysis of the way in which this relation works.

Economic ideas are promoted within an ideological context and the balance of forces between different camps can reflect very unequal resources. Certainly it does in economics. However, ideology is neither mere instrumentality nor conspiracy (despite the temptation to ascribe such a role to the Mont Pelerin Society, of which very many Nobel Prize Winners were members) and conflicts over ideas are more than a war over policies. Recognizing these complexities is necessary to illuminate the dynamics of economics, as a politicized sphere of intellectual life. Both aspects matter (that it is politicized and that it is intellectual). This having been said, the authors are surely right to point to the close links between economic theories and economic policies, especially in the heyday of market-oriented policies, beginning in the late 1970s. Should utopias be held responsible for the crimes committed in their name?[11] Insofar as economic theories that have had damaging

10. Contradictorily, Williamson is earlier cited by the authors as asserting that Washington Consensus prescriptions, 'all stem from classical mainstream economic theory' (p. 235).
11. See, for example, Nandy (1987) for a discussion of this question.

consequences when brought to policy have been sanctified by the Nobel Prize, that ought to provide pause.

The *Nobel Factor* is an informative excavation of the origins of the Prize and of the persons, institutions and debates that influenced it. It also provides deep insight into the debates on the governance of the Swedish economy and the sustainability of social democracy taking place over decades. The authors demonstrate a magnificent sweep of knowledge, moving ably between abstract descriptions of economic theory and institutional and personal histories. In this respect and many others, it is a model. The *Nobel Factor* will inform a conversation about the effects of the Prize on the discipline of economics (e.g. through its role in creating or reinforcing intellectual and institutional hierarchies) and about the effects of the Prize in the world. It ought also to influence the discussion about whether the Prize in its current form should be abolished or at least substantially reinvented to reflect respect for a broader range of methods and concerns. However, it is less about these things than it is about the way in which the Prize was shaped by the debate within Sweden. Despite its particular focus, it provides an essential step in the project of examining the role of the Prize in shaping the economics discipline and the world at large, and still more broadly, of understanding the dynamics of thought, policy, and power in the contested landscape of 'economic science'.

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