

# Economics: straddling

THE 1984 Nobel prize for Economics was awarded to Sir Richard Stone, a retired Cambridge University professor, for his work on developing systems of national accounting — double-entry book-keeping on a grand scale.

This prompts a look at previous Nobel laureates in Economics.

The Nobel prizes were established by the estate of Alfred Bernhard Nobel (1833-1896), a Swedish inventor and engineer who developed dynamite and other explosives which he thought were so dreadful that wars would be abolished.

Annual awards were established in Literature, Chemistry, Physics, Medicine and Peace. They were started in 1901 (the Boer war was going on) and have evolved into the world's most prestigious awards.

A latecomer was Economics, a sixth category started in 1969.

---

*'Physics has made progress: economics is floundering'*

---

In establishing the prize, the Swedish Academy of Science wanted to stress the *scientific* aspects of the subject — indeed, they referred to it as Economic Science. They gave emphasis to techniques, methods, fact-finding, and sought to avoid ideology. Thus they aimed to put Economics on a par with the other sciences.

*How has this worked out?*

LOOKING at the list of prize winners (facing page), we see that from 1969 to 1973, they stayed close to their concept of Economic Science. The laureates worked in Econometrics, mathematical models, methodology (which, however, is not quite the equivalent of the nitty-gritty in other sciences). But then there was change.

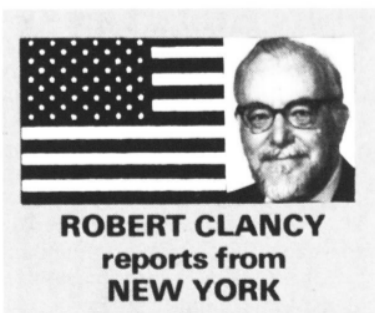
In 1973, in the world of affairs, there was a serious global recession, the OPEC countries stunned the world with its dramatic increase in the price of oil and the conventional

Keynesian wisdom suffered blows because of stagflation.

The supposed verities were shattered, and lo and behold, the Nobel prize went to *ideologues*.

In 1974 the prize was divided between Hayek, an apostle of the unregulated market, and Myrdal, a proponent of government intervention. And in 1975 the prize was divided between a Russian and an American. So if ideology could not be avoided, they at least tried to straddle the fence!

Thereafter, it is as though the billiard balls were scattered on the



table, with a great diversity of approaches: monetarism, international trade, decision-making processes, Third World economics.

But from 1980 to 1983, there was *another* interesting change. It was back to Econometrics — but with a difference.

The 1980 laureate, Lawrence Klein, served in the Carter administration and was a proponent of national policy-making. The 1981 laureate had served in the Kennedy administration, was a Keynesian and an opponent of Friedman. One reviewer asked: was the Swedish Academy of Science sending a message?

But in 1982, there was *another* change. The winds of conservatism were blowing. Ronald Reagan and Margaret Thatcher were gaining in credibility and other countries were going conservative. And the 1982 laureate was George J. Stigler, a strict marketplace economist. In 1983 the laureate was Gerard Debreu, who had undertaken studies on the equilibrium of supply and demand in a market economy, seeking to verify Adam Smith's "invisible hand." In 1984 — with no great changes in the world

but with conservatism being challenged we're back to "impartial" economics with Richard Stone.

Thus we see that the Nobel decisions were affected by changing trends and the climate of thought and they could not consistently maintain the Olympian detachment they at first thought possible.

The Nobel prizes for Physics, Chemistry and Medicine indicate over the years advances in these fields. Each succeeding contribution is built on previous work and progress made.

*But such is not the case with Economics as currently taught and practiced.*

- For a time — a few years perhaps, or even several years — a set of ideas and policies seem firmly in place.

- Then comes an unexpected crisis and different ideas challenge the conventional wisdom.

- Perhaps one or more of these ideas become adopted and the same process is repeated.

It is as though an unseen obstacle or gap breaks down the gears of economics.

DATING from Adam Smith, economic thought has been cultivated for some 200 years. For about the same period, physics has been developing as a science.

But whereas physics has made phenomenal progress, economics is still floundering. There is not a common ground. Economists vie with one another with contradictory theories and claims. The uncontro-

---

*'Economic progress must be limited to the basic issues'*

---

versal contribution of the 1984 Economics laureate, Richard Stone, in developing a super book-keeping system, hardly compares with advances in other sciences. Increased understanding of how things work is what matters, and prizes don't go to people who improve ways of counting stars or blood corpuscles.

Real economic progress cannot be

**ECONOMISTS VIE WITH ONE ANOTHER WITH CONTRADICTIONARY CLAIMS**

# the ideological fence

made without paying heed to the big basic issues.

● Can we look at the business-cycle theory of the Russian economist Kondratiev without noticing that he was exiled to Siberia for dabbling in capitalistic economics?

● Is it enough to perfect mathematical models while the world is going haywire?

● While debts and deficits are mounting everywhere, does an improved method of keeping accounts help much?

● Can developmental economies be worked out matter-of-factly while the Third World is mostly in the grip of domineering elites?

● Can an economy be described with no reference to the disinherited masses?

● Can models be constructed without regard to the effects of bureaucratic interference in the market?

● And can growth be plotted while avoiding the hottest issue all – the distribution of wealth?

If the hope is that neutrality in such matters will make economics more closely resemble other sciences, such as physics, this is not the case.

**T**HE FACT of life most persistently ignored by today's economists is the monopoly of land and the rent of land.

Classical economics did recognise the special nature of the rent of land, and did notice that the landowner as such made no contribution to production. The phenomenon which they

---

*'Physics would be  
in the same  
sorry state'*

---

recognised to some extent was fully brought to light by Henry George – that the rent of land increases with the growth of society, that an artificial increase presses against other returns, and that it must be diverted from private pockets to public uses.

Economists have chosen to soft-pedal the importance of this knowledge, choosing to merge land and

---

## Previous winners of prizes associated with economics are:

- 1969: Roger Frisch, Norway, and Jan Tinbergen, Netherlands for their work in Econometrics and the mathematical handling of economics.
- 1970: Paul A. Samuelson, U.S., for influence as author of the most widely used textbook.
- 1971: Simon S. Kuznets, U.S., for contributions on quantitative study of the growth of nations.
- 1972: Kenneth J. Arrow, U.S., and John R. Hicks, Britain, for work in equilibrium theory – balance in the economy.
- 1973: Wassily Leontief, U.S., for input-output technique for predicting trends.
- 1974: Friedrich A. von Hayek, Britain, and Gunnar Myrdal, Sweden, for influence on two poles of economic thought.
- 1975: Leonid V. Kantorovich, U.S.S.R. and Tjalling C. Koopmans, U.S., for work on allocation of resources for opposite systems.
- 1976: Milton Friedman, U.S., for influence as a monetarist.
- 1977: James E. Meade, Britain, and Bertil Ohlin, Sweden, for work on international trade.
- 1978: Herbert A. Simon, U.S., for analysis of organisational decision-making.
- 1979: Arthur Lewis, Britain and Theodore W. Schultz, U.S., for work on developmental (Third World) economics.
- 1980: Lawrence R. Klein, U.S., for work in Econometrics and computer models.
- 1981: James Tobin, U.S., for analysis of financial markets and macro-economics.
- 1982: George J. Stigler, U.S., for analysis of markets and effects of regulation.
- 1983: Gerard Debreu, U.S., for study of equilibrium in market economy.

---

rent with other factors and returns.

Paul Samuelson has a good demonstration of the law of rent in his textbook, but then he does not integrate it with the rest of economics.

Milton Friedman and Herbert Simon have mildly endorsed land value taxation, but place no special importance on it.

Supply and demand economists do not notice that land is different from reproducible goods.

Computer models and forecasts take no notice of rent.

With this all-important factor missing in current economics, it is no wonder that the gears keep getting stripped. It is as though in physics no importance were attached to some basic phenomenon such as light or magnetism or gravity. No doubt physics, in those circumstances, would be in the same sorry state that economics is in today.

We cannot help calling to mind Macaulay's observation that if the law of gravity offended any large pecuniary interest, there would not be wanting learned arguments against it.

Let's face it – there is much pecuniary interest in land and its rent! Could this be another "invisible hand" in economic thought?

---

*'Economics is an  
even hotter topic  
than peace'*

---

As for the other Nobel categories, Literature is in a class by itself, as a masterpiece can be written in no matter what year. But the other categories are supposed to show some advance. Such has been the case in Physics, Chemistry and Medicine.

It is only fair to admit that human and social affairs are much more complex than the other disciplines and that we have a long way to go to approach comparable understanding.

In this domain, besides Economics, there is the Peace prize, which was Nobel's primary interest. It has been awarded almost annually since 1901, and during that same period we have experienced the two worst world wars in history, plus a host of nasty lesser ones, plus the most monstrous of all hanging over our heads.

The awarding of the 1984 Peace prize to Bishop Tutu of South Africa shows that the Nobel people are not avoiding controversy in that field.

*But by comparison, Economics is an even hotter topic than Peace (or race relations).*

Economics concerns how all of us live in both wartime and peacetime, how wealth is produced and, above all, how it is distributed.

Unless this is squarely faced, there is likely to be further evasive dabbling in Economics with periodic crises.

---

## ... INCREASED UNDERSTANDING IS WHAT MATTERS