

# Foreword

If you visit any place where economists hang out in the first two weeks of October, you are likely to witness a heated debate about the probable next winner of the so-called Nobel Prize in Economics because the actual winner is usually announced in the third week of October. Most economists have strong views about their favourite candidate, not so much because the Prize is a popularity contest, but because they realise that the winner is not just a particular individual but also a particular style of doing economics, or a particular type of economics represented by the works of the winning Nobel Laureate.

There is a widespread misunderstanding, even among professional economists, of how the decision to award the Nobel Prize in Economics is actually made. The stereotypical view, sometimes expressed by financial journalists, is that a small cabal of Swedish economists pick the winners based on little more than their own knowledge of where economics is going and where it ought to go from then on. But as Howard Vane and Chris Mulhearn carefully explain in the opening chapter, the Nobel Prize in Economics rewards specific discoveries rather than outstanding achievements over a lifetime, as if economists, like inventors applying for a patent, must establish their originality to be eligible for an award. It is actually doubtful that economics as a discipline is characterised by novel discoveries rather than conceptual clarifications or different ways of pouring old wine in new bottles. Be that as it may, if as an economist you have an axe to grind, you are bound to associate it with the writings of one or more economists and, even if such views are dismissed as alien to a 'hard' science like economics, you are likely to think that some economists express the 'hardness' of 'real science' better than others and will therefore favour some names for the Nobel Prize over others. If you are a heterodox economist and view the mainstream with disdain for whatever reason then, of course, who actually wins the Nobel Prize in Economics is a matter of life and death. I hope that I have now said enough to explain why the Nobel Prize in Economics is more keenly anticipated and debated by economists than the Oscar Film awards are debated by cinema buffs.

If the awards were really in the hands of a small group in Sweden, as some lovers of conspiracies believe, a small group outside the worldwide professional community of economists, then the fury of the arguments would be all too easy to understand because the Nobel Prize in Economics would then represent outside interference in the House that Economists Built. But as our two authors quite rightly point out, the awards are actually based on consultations with professors of economics in all the Scandinavian countries, professors of economics in leading American and European universities, nominations by a long list of leading economists in the fields concerned, and even nominations by a number of non-economists if the works of nominated candidates are interdisciplinary. So, any notion that the Prize is awarded conspiratorially by a small elite is just nonsense. Besides, there is a high correlation between the Nobel Prize awards in any year and purely objective measures some years earlier, such as high citation counts in the leading economic journals, awards of medals and election to the presidency of professional associations of economists, and so on, and all these are judgements made within the subject by the scholarly community of economists.

However, if that were the whole story, the Nobel Prize in Economics might be thought of as icing on the cake, which could not possibly have an independent effect on economics. In that case, however, it would be difficult to understand why economists get so hot under the collar every October. But the fact of the matter is that a high correlation is not the same thing as the certainty that when  $x$  occurs  $y$  will also occur. Every now and then, the Nobel Prize in Economics is not simply the endorsement of the mean judgement of the profession but a genuine shock that sends the subject off in a new direction. As our authors argue, most of the Nobel Laureates have been either US citizens, or affiliated to an American university, or received their doctorates at one of 14 top-ranking universities, or won a prestigious award from a professional association of economists, and only four of the 55 Nobel Laureates to date have failed to meet any of these criteria, namely, Hicks, Hayek, Kantorovich and Selten. So, at least in those four cases, the Nobel Prize came as a real surprise to economists and made a real difference to economics, although it must be admitted that even here the prize was a shared prize and what was awarded and thereby promoted was a field of economics or type of economics personified by the Laureate in ques-

tion (general equilibrium theory in the case of Hicks, non-formalised interdisciplinary thinking in the case of Hayek, activity analysis in the case of Kantorovich and game theory in the case of Selten). The Nobel Prize can make a difference, albeit only a small one.

If it is indeed a small difference, perhaps it would be better for economics if it were abolished altogether as some economists, for example, Milton Friedman, have suggested. First, it produces superstars in economics with all the kudos and high earnings of superstars – the Nobel Prize in Economics includes a monetary award, which, depending on the state of the stock market, can approach or exceed \$1,000,000 – and this implies invidious comparisons that are extremely hurtful to the near-winners. Second, it promotes the idea that economics is a ‘hard’ science like physics and chemistry, which is one of the sources of the distrust of economists among neighbouring social scientists, such as sociologists, political scientists, anthropologists and even psychologists (a genuinely ‘hard’ social science). Perhaps economists would be a little less arrogant about other subjects without the Nobel Prize in Economics and, surely, that would be a good thing? Nevertheless, and on balance, I would hate to see the Nobel Prize in Economics disappear. It is good for economics to get a little jolt now and then from a partially-outside institution like the Nobel Prize Committee. Some of those jolts were deplorable in my judgement. Some were much needed and entirely appropriate. If I told you which was which, you would know exactly what I thought was right or wrong with modern economics. This is one way of defining the significance of the Nobel Prize: the more one cares about economics as a subject, the more one cares about the next winner.

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