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**Avner Offer & Gabriel Söderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and The Market Turn*, Princeton University Press, 2016, 308 pp. \$24 Hardcover.**

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**Abstract.** Avner Offer and Gabriel Söderberg have written a history of the Swedish National Bank's Prize in Economic Sciences in Memory of Alfred Nobel that considers its establishment, important administrative figures, and ideological change. The book frames the history of 20<sup>th</sup> century economic thought into liberal Swedish Social Democracy and neo-liberal economics.

**Keywords.** Nobel factor, Nobel prize, Social democracy.

**JEL.** B10, L66, Q18.

## 1. Introduction

There is an abundance of well-written popular economics books about the pervasive relationship of economics on the population at large, and economists critical of their own methodology. These books can be classified into two groups: popular culture and serious academic analysis of the economic methodology. The former is a relative new comer, and with the 2005 success of Steven Levitt and Stephan Dubnar's *Freakonomics*, other economists now write casual books for a broader lay-audience, illustrating insights from the 'economic way of thinking.' The latter has been from insight from within academics longer, and noted economists and other social scientists have taken turns evaluating the methods and assumptions of mainstream economics. Avner Offer and Gabriel Söderberg add their critique of economic methodology, and evaluate the assumptions of neo-classical, neo-liberal economics in their book *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn*.

While economics is the most imperial of the social sciences, it is also among the most reflective of its own methodology, and it has its own sub-discipline into the history and philosophy of economic thought. In 1968, the Swedish National Bank's Prize in Economic Sciences in Memory of Alfred Nobel was established—commonly referred to as the Nobel Prize in Economics—and from its beginning, has faced criticism from both within the discipline and from other sciences. External criticism came from the hard sciences, especially physics, that felt the disciplines was not up to comparable rigor. However, the internal response within the social sciences has likely been more pervasive. There was understandable concern from the other social sciences why economics was the social science singled out for the prize. It is against this back drop that Offer and Söderberg highlight how the Prize was established and how awards have been made over time.

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## Journal of Economics and Political Economy

The book frames much of its history between the Swedish Social Democrats with their emphasis on the productive role of the state, and neo-liberal thought with its emphasis on markets and suspicion of state power. To consider what the prize has become, Offer and Söderberg go back to the period before the prize was established. From their beginnings, Europe and Sweden economists have had greater tolerance of the state's positive intervention into market processes than in the United States. This tolerance also promotes greater public funding toward academic research. So, when the Prize was proposed, there is little surprise that the Swedish Riksbank was willing to fund it. In the 1960s, Assar Lindbeck was a young Swedish economist who was instrumental in the Prize's establishment. A right-of-center economist, Lindbeck was important as an important member of the nominating committee throughout the 1990s. It was also in the 1990s when so many of the Prizes went to neo-liberal economists. Since Lindbeck's retirement, topic matters and economists who have received the Prize have moved back toward the center. Here Offer and Söderberg provide rich detail into the politics and decisions behind the Prize that are omitted from other histories of economic thought.

In 1957 George Stigler proposed that economics is innately a conservative discipline, when he defined a conservative economist as one "...who wishes most economic activity to be conducted by private enterprise, and who believes that abuses of private power will usually be checked, and incitements to efficiency and progress usually provided by the factors of competition (Stigler, 1959, p. 522 and 524)." But the conservative-liberal economic divide can also be defined in a separate way. If liberalism is defined as government interference into market processes to remediate market imperfections, much of demand theory and welfare analysis is liberal because economic policy recommendations interfere with the market to correct market shortcomings. Given these definitions, the first two decades that the Prize was awarded went to liberal economists, such as Paul Samuelson and Robert Solow, with conservative economists receiving less recognition. The 1990s was a period when conservative economists, such as Gary Becker, Robert Fogel, and Robert Lucas, caught-up. However, with Lindbeck leaving the committee after 2000, there is a resurgence in liberal economists receiving the Prize.

There is much throughout the book for economists and social scientists to agree. For example, economists frequently are enamored with the eloquence of their models and their internal consistency, while forgetting external relevance. However, not all assumptions are valid or realistic, and even the most accomplished economist should proceed with caution and humility, especially in regard to policy recommendations. Moreover, the stark comparison between neo-classical, neo-liberalism economics, and Swedish Social Democracy shows that while the two are different economic approaches, they are similar in that both reach similar conclusions that consumer's and producer's needs are satisfied in equilibrium. For Social Democrats, social needs are satisfied by an active government that provides paternalistic support, while the market fulfills these needs under neo-classical and neo-liberal economic thought. Nonetheless, these provisions are frequently foiled when perverse strategic agents behave opportunistically. Much of recent economics makes a virtue of self-interest and mathematical formalism. While some economists may disagree, contemporary economists are frequently over confident in their model conclusions simply because they are mathematically eloquent, rather than being practical. Many economists now pride themselves on finding counter-intuitive results for their own sake rather than the reality of their assumptions. However, counter-intuitive results are not compelling if they are wrong.

There is much in the book to question. At times, the author's perspective gets in the way of their presentation and distracts from their history of the Prize. Moreover, many economists will object that after three centuries of study and research that economics has yet to come up with a single non-obvious 'law' or

## Journal of Economics and Political Economy

universal irregularity. Many readers may question both the definition and classification of liberal versus conservative. The authors' classification of Nobel Prize winners into empirical versus theoretical conclusions is troubling. For example, many econometricians are more theoretical than empirical, yet in this study, econometricians are included as empirical. Instead of including only a conservative versus liberal comparison, a more constructive classification scheme may be conservative, liberal, and winners whose results do not cleanly fit into conservative or liberal. Such a classification may change the authors' conclusions but may be more accurate.

We live in a golden age of economic literature. Forty years ago, there were two well-known Nobel-Prize winners who wrote for a larger popular audience: Paul Samuelson and Milton Friedman. Today, economists regularly write for a wider audience and spread the 'economic way of thinking'. However, they also write to themselves and other social scientists to explain and defend their methodology. Avner Offer and Gabriel Söderberg have written a valuable history of modern economic thought that takes the unique question of how the establishment of the Swedish National Bank's Prize in Economic Sciences in Memory of Alfred Nobel is related to the history of economic thought. The book is an engaging study that appeals to audiences interested in the nuances of the economic way of thinking and to social science scholars interested in how the Rikbank's establishment of a Nobel Prize influences the direction of modern economic thought.

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