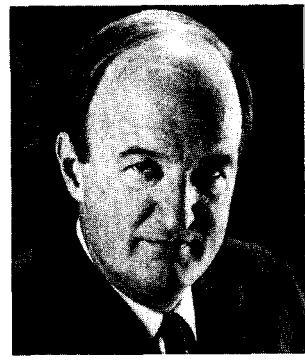

Who Deserved the Nobel Prize?

"Prizes shall be awarded to those persons who during the previous year have rendered the greatest service to mankind."
—Alfred Nobel's last will (1895)

Since 1969, the Nobel Memorial Prize in Economic Science has been awarded to more than two dozen eminent economists, including Paul Samuelson, Friedrich Hayek, Milton Friedman, James Tobin, and Robert Solow. Last year the winner was Robert Lucas, the Chicago economist who developed the rational expectations theory.

Lucas's winning the Nobel Prize reflects the growing dominance of free-market economics in the profession. In fact, economists from the University of Chicago received the award in five of the past six years. The prize, established by the Bank of Sweden, is awarded by a six-man committee, headed by Assar Lindbeck, who has gradually grown more conservative over time. Economist Robert Kuttner bemoans the fact that several prominent Keynesians were ignored by the Nobel committee during their lifetimes: Joan Robinson, Nicholas Kaldor, and Sir Roy Harrod (*Business Week*, November 12, 1990).

Are there any free-market economists who failed to receive the Nobel Prize? I asked several colleagues to name their favorite deceased economist who was still alive in 1969, why that economist deserved the award, and what major works should be cited. Their choices were as follows.

Ludwig von Mises

Ludwig von Mises (1881–1973), the pre-eminent Austrian economist, was everyone's first choice. Of his many original contributions, three stand out: the theory of the business cycle, the socialist calculation debate, and methodology. Most important works: *Theory of Money and Credit* (1912), *Socialism* (1922), and *Human Action* (1949, 1966).

Murray N. Rothbard

Murray N. Rothbard (1926–1995), the libertarian iconoclast who popularized Misesian economics in America, was nearly everyone's second choice. He made original contributions in welfare economics and monopoly and tax theory, but was best known for his remarkable ability to write clearly and profoundly about money, business cycles, and government policy. Major works: *Man, Economy and State* (1962), *America's Great Depression* (1963), and *Power and Market* (1970). His booklet *What Has the Government Done to Our Money?* has probably had the greatest influence of all. Several colleagues also men-

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tioned his last great work, a two-volume history, *Economic Thought Before Adam Smith* and *Classical Economics* (Edward Elgar, 1995).

W. H. Hutt

William H. Hutt (1899–1988), a classical economist who for half a century taught at the University of Cape Town, was frequently mentioned as a third candidate. Hutt's major contribution was in labor economics, wherein he argued that persistent unemployment was due to above-market wage rates imposed by government regulations. He was a long-time critic of Keynesian economics and apartheid in South Africa. Major works: *The Theory of Idle Resources* (1939), *Keynesianism: Retrospect and Prospect* (1963), and *Economics of the Colour Bar* (1964).

My fellow economists also recommended several other names: Oskar Morgenstern for his *Theory of Games and Economic Behavior* (1944, co-authored by John von Neumann) and *On the Accuracy of Economic Observations* (1950); Gottfried Haberler for his *Prosperity and Depression* (1937) and his exposition of the Austrian theory of the trade cycle; Frank Knight for his *Risk, Uncertainty and Profit* (1921); Jacob Viner for his history of economic thought and the development of cost theory in *The Long View and the Short* (1958); and Henry Hazlitt for his *Failure of the "New Economics"* (1959).

Surprisingly, several free-market economists felt that Joan Robinson (1903–1983) merited the Nobel Prize, not for her politics, but for her scientific contributions, such as *The Economics of Imperfect Competition* (1933). In 1975, she was widely expected to win the Nobel Prize, but was ultimately denied it because of her extreme political views and her admiration of Mao's China and Kim Il Sung's North Korea.

What Nobel Really Wanted

In reviewing the winners of the Nobel Prize, I wonder how well the Nobel committee has matched Alfred Nobel's original desires. His last will and testament created five prizes (physics, chemistry, physiology or medicine, literature, and peace), all for actions that were to benefit mankind in a very practical sense, much like his invention of dynamite. Dynamite is not used solely as a tool of war; it plays a valuable role in mining, construction, and transportation. Nobel's last will is filled with words such as "discovery," "invention," "improvement," "ideal," "brotherhood," and "peace." In sum, scientists, authors, and activists who have improved the lot of mankind deserve the Nobel Prize.

In the past, the Swedish academies have given prizes to outstanding citizens who have rendered the "greatest services to mankind": Roentgen for discovering x-rays, Marconi for developing the wireless telegraph, Banting for isolating insulin, and Fleming for discovering penicillin. Yet, at the same time, the Swedish Royal Academy has awarded many obscure and sometimes minimal contributors while ignoring many noteworthy individuals. In literature, for example, Mark Twain and Leo Tolstoy never received Nobel honors.

In science, the following were overlooked: Thomas Edison for the electric light bulb; August and Louis Lumière for motion pictures; Willis Haviland Carrier for air-conditioning; Orville and Wilbur Wright for the airplane; Henry Ford for mass production; George Washington Carver for agricultural techniques; Vladimir Zworykin and Isaac Shoenberg for television; Robert Watson-Watt for radar; Frank Whittle and Hans Pabst von Ohain for the jet engine; Chester Carlson for xerography; Howard Aiken, John P. Eckert, Jr., and John W. Mauchly for the digital computer; Jonas Salk for the polio vaccine; and Ted Hoff for the microprocessor. (I thank Michael H. Hart, author of *The One Hundred: A Ranking of the Most Influential Persons in History* [Citadel, 1992], for providing this wish list of potential Nobel winners.) Surely these men have made a significant difference in our way of life and standard of living.

A Nobel for W.E. Deming?

In keeping with the spirit of Nobel, the Nobel Memorial Prize in Economic Science ought to expand its universe from high theory to applied science. If the Nobel Prize can go to finance theorists such as Harry Markowitz, perhaps it could be extended to management theorists, statisticians, and entrepreneurs. For example, surely W. Edwards Deming (1900–1993) deserved the Nobel Prize in economics. Although not a trained economist, his dynamic "quality-control/consumer research" approach developed in post-war Japan revolutionized the world of production, consumption, and job creation as much as any Friedman or Samuelson. □

BOOKS

The Vandals' Crown: How Rebel Currency Traders Overthrew the World's Central Banks

by Gregory J. Millman

The Free Press • 1995 • 305 pages • $23.00

Reviewed by Raymond J. Keating

The first 225 pages of *The Vandals' Crown* generally make for interesting reading—describing some fascinating developments in financial markets and the economy. The remaining 50 or so pages unfortunately skew off in a different direction—either better left for another book or simply discarded altogether. Much of this book, though, lives up to its tantalizing subtitle—"How Rebel Currency Traders Overthrew the World's Central Banks."

Author Gregory J. Millman explores various intriguing moments in monetary history. He writes of France's great inflation between 1418 and 1423 and takes note of John Locke's contribution to monetary thought. He also offers a brief discussion of the gold standard, pointing out that one of the great merits of gold is its ability to restrain the activities of monetary authorities. After all, inflation results from government's mismanagement of monetary policy. Indeed, the author clearly shows that even gold-based monetary systems go awry when government officials tinker with and try to circumvent the system's disciplines. Among the examples of government mischief he cites are the trade war and currency devaluations of the Great Depression, and the inflationary U.S. monetary policy that eventually destroyed the flawed Bretton Woods monetary regime.

As the U.S. dollar was de-linked from gold—effectively in the late 1960s and officially in 1971—a new source for monetary discipline had to be found. This is where *The Vandals' Crown* shines. Millman tells the story of how currency markets developed and grew, and eventually how more powerful, efficient, and integrated financial markets now work to impose some checks and balances on both government fiscal and monetary policies.

Millman sets the tone for this story early on by noting: "Although investors have always had to take into consideration the quality of a government's management of its economy, traders now have an unprecedented degree of power to sweep the financial foundation out from under poorly managed, politically unstable, or uneconomic governments before the bureaucrats even know what has happened." He continues: "For better or worse, since the collapse of the Bretton Woods international monetary order, traders provide the only financial discipline the world knows."

The reader might expect the author to wrap up such a book perhaps with an analysis of how the economy performs under today's intertwined monetary, fiscal, and financial systems. However, Millman concludes this book with a look at a host of legal infractions and shady schemes concocted by various financial traders over the past few years. Millman sought to show "the weaknesses of a financial system that is more efficient than any financial system in history, but may also be more vulnerable to moral hazard than ever before." *The Vandals' Crown* tarnishes in these last pages.

After showing the shortcomings (namely, inflation) of monetary policy under the discretion of government bureaucrats, Millman seemed compelled to attack the individuals operating in the financial markets as well. Human nature is human nature, but the author offers no comprehensive and compelling arguments as to why more efficient financial markets might be *more* "vulnerable to moral hazard." His substantial emphasis in the closing pages on the wrongdoings of a handful of players in the financial markets also gives the mistaken impression that corruption is widespread and such individuals possess the capabilities to wreak catastrophic economic havoc.

Markets ensure that individuals rarely, if