

- Welcome once again as MIT Professor Paul Samuelson discusses the current economic scene. This series is produced by Instructional Dynamics Incorporated. This program was recorded October 25.

- Today I'd like to talk about the new Alfred Nobel awards for economic science, which were announced a little bit earlier this month. Gunnar Myrdal of Sweden and Friedrich von Hayek, originally of Austria, later of the London School of Economics and the University of Chicago and now I believe back in Salzburg, were the joint persons awarded the 1974 prize. The Nobel award, it's not really a proper Nobel prize, in economics is new. It was awarded for the first time in 1969. It was not part of the original will of Alfred Nobel, the winner of, the inventor of dynamite. But to celebrate I believe it was its 300th anniversary, the Bank of Sweden decided that it would fund a prize equal in cash value to the original prizes which are in physics, in chemistry, in physiology, and literature. Those four prizes are awarded by Swedes and are awarded in ceremonies in Stockholm on Alfred Nobel's birthday, December 10, and in addition of course there's the Peace Prize, which Alfred Nobel arranged to have given by Norwegians and awarded on the same day in Norway. At the time that Nobel died, which was in the 1890s, Sweden and Norway of course were under a joint crown, that is, they had the same king and queen, although there was a certain measure of independence of the junior partner which was Norway. I believe it was in 1905 that the Norwegians became restive and I guess they were given a different German royal family. And since then, of course, they've been part of Scandinavia but completely separate countries. Well, the prizes always involve a certain amount of drama. They are awarded on successive days. The person who receives the prize usually learns about it at six o'clock in the morning from some member of the press asking him how he's going to spend the money or how he feels about winning the prize. And apparently this year, The New York Times was alerted that the prize would come out on a Wednesday morning and on Monday they asked me if I would stand ready to write an article as I had done in the past for them on the new recipients. I said I would be glad to, provided that I knew them, and I rather thought that I probably would know them because economics is, after all, one small happy family. It's interesting that I just caught in my hotel room at the Waldorf the last part of the announcement saying that an Austrian had received it for his contributions to monetary analysis, but I didn't get the name. That opened up some interesting guessing games for me. I thought, well, if Ludwig von Mises were alive, it could well have been given to him, but he died in his 90s not very long ago, still with his boots on, so to speak, preaching the virtues of laissez-faire as an extension professor at New York University. You can't give the prize to a dead man. A man is permitted to die between the time that the prize is announced and when it would have been awarded to him, the difference between October and December, but if you're dead, you're dead, dead, dead and it's too late. So Ludwig von Mises couldn't be it. My old professor, Gottfried von Haberler, Gottfried Haberler as we've come to call him these last almost 40 years that he's lived in America, was of course a possibility, but I couldn't think why they were identifying him with Austria. I know American chauvinism and jingoism, and it tends to take anybody who is current in America and allocate the prize to an American even though he may have been born elsewhere and even though he may have done his best work elsewhere. So I thought that that was unlikely. But I didn't really know whether Hayek would be the one. Myrdal was not so surprising. In fact, just a few days before the awarding of the prize, I was discussing with one of the previous Nobel winners who it might be, and he said, well, what

about Gunnar Myrdal? Myrdal is a very eminent person, and it was to be expected that he might someday receive the prize although the Swedes, particularly in the Royal Academy of Sciences, where the economics prize is given are a little bit reluctant to give an early prize I would suppose to one of their own members, lest it be thought to be a case of favoritism. And actually, as some of you will remember, the prize for literature was given to two Swedes not very well-known outside Scandinavia. Indeed, their works haven't been translated until now into English, and you can be sure they'll be very quickly now translated but that was considered to be kind of an unfair thing. The peace prize is always difficult. What are the standards to be used? And the literature prize is, I'm afraid, not much better. In particular, there were some outstanding people who were overlooked in the early years. Tolstoy, for example, was alive and could have been given the 1901 prize. He died, I think, around 1911. He was never given a prize because it is said that the head of the Swedish Academy, it is the Academy that gives the literature prize, was against him. One can wonder whether these prizes do more good than harm. I don't want to go into that discussion, but it's always seemed a pity to me that there isn't a Nobel prize for mathematics. It is a natural subject it seems to me for such a prize. But I've learned that Alfred Nobel did not care for one of the great Swedish mathematicians of the day, Mittag-Leffler, and he was pretty sure, and I think he's right, that Mittag-Leffler would have gotten one of the early prizes. And rather than contemplate from the grave that happening, he didn't award a prize. Besides, Alfred Nobel originally had the notion that these prizes were to be given for the good of mankind, for people who had made contributions for the good of mankind, more exactly for people who were still going to make contributions for the good of mankind. And he rather thought that it would be given to somebody for very recent work, a young person, and that the amount of money would be large enough to support him the rest of his life so that he could give himself to pure science. Well, it shows how even the very wealthy can't take it with them and they can't leave it in such a way as to realize their fondest dreams because although the Nobel foundation in Sweden I must say has done very well in investing, you can unitize how well they have done by looking at the size of the prize. To have had an increase in the prize from \$100,000 of a year ago or whatever it was to \$120,000 this last year suggests that they're practically geniuses in their ability to do better than a random dart in selecting securities. Well, that's a good round sum, particularly if it goes to a single person. But it's not enough to support a prime scientist in the prime of life for the rest of his life. I thought that Simon Kuznets, who received the award in 1971, gave the best answer to the reporter who asked the inevitable question, what are you going to do with the money, and he said, I'm going to use it to brighten up my retirement years. That's about what the function of that sum of money these days, of inflation and increasing real income around the globe can actually do. Well, I did scribble down some remarks for The New York Times, and let me mention what their content was and also elaborate and comment on the matter. I said economists all over the world will think it a happy choice of the Swedish Royal Academy of Science to have selected Gunnar Myrdal and Friedrich Hayek for this year's Nobel Memorial Prize in Economic Science. Although both men were said to have been selected primarily for their stellar contributions to monetary analysis, macroeconomics as we now tend to call it, each has in fact made outstanding contributions in the wider realms of policy and the social sciences. But of course in no sense has their work been joint. Indeed, their policy conclusions, if followed literally, would be at loggerheads and self-canceling. Hayek's most famous work, his 1931 four lectures on business cycles called Prices and Production, arrived at the conclusion that excess credit expansion and deficit spending by governments plus the central bank created too much money and this was the root of all business cycle evil. In fact, the root of all evil. The best cure for the depression then, he thought, was to sweat it out. And the worst thing

that Dr. Hayek and his Austrian school counterparts believed was for the government to provide unemployment compensation and other supplements to consumers' incomes, for that would merely put off the bitter day of reckoning and only worsen the under-saving, you have to put that in quotation marks, that he thought was the villainous cause of every depression. It's a very odd and mechanical theory of the business cycle. I can assure you it had a tremendous vogue for a few years about 1931, but you pay for that kind of vogue and it's been at a very deep discount. To show how seriously it was taken, I suggest any of you go to a good library and read a book by Lionel Robbins, now Lord Robbins, whom you might call the greatest Austrian of them all, on the Great Depression. And it's a book which, by the way, Robbins is now repudiated, I guess he thinks that he was bewitched when he wrote it, but in that, he's saying don't give any income relief, don't make consumer credit available because what has caused the depression, and this by the way was never properly and cogently deduced, what caused the depression was the fact that the structure of production, the roundabout-ness of production, was artificially elongated by excessive credit creation by the banks. And you can't keep up that artificial elongation unlike the genuine elongation that comes from genuine permanent saving. Therefore, sooner or later, the trombone which has been pulled out, has been elongated is going to try like a rubber band to snap back to a shorter form, and if you try to put off that necessary correction, by giving money to the consumers, that will only make the snap back faster. Now of course, the Great Depression of the 1930s, which involved poverty in the midst of plenty, is very hard to recognize in this mechanical scenario of an elongated trombone pulled back by a spring or a rubber band, but that sort of thing was taken seriously at that time. Now by contrast, Myrdal was one of the Stockholm School, who anticipated much of Keynes' general theory. Other members of that School, and by the way except for their age, they would be certainly deserving of contemplation at least of a Nobel award, would be Bertil Ohlin for a long time the head of the free enterprise party, liberal party so called in Sweden, the late Dag Hammarskjöld also made pre-Keynesian contributions, Erik Lindahl, now dead, and Erik Lindberg, now very much alive and actually the president of the Royal Academy of Science in Sweden. I don't think that Lindberg anymore is on the committee of that Royal Academy that awards the prize. I believe Assar Lindbeck is the chairman of that committee. Well, Myrdal wrote many books. He was a brilliant young man. He actually was trained as a lawyer, as so many economists on the continent were in those days. I think he even practiced law as Schumpeter did for a very short period of time. He's a very valuable, non-Scandinavian type of fellow. Well, his monetary equilibrium emphasized the need for expansionary fiscal and monetary policy in a depression. And Myrdal has been anything but a believer in laissez-faire. In fact, he's been an important architect of the Swedish labor party's welfare state. By contrast, Hayek regards himself as not belonging to any of the current parties. I think he once described himself as most at home in the early 19th century Whig era of limited government paints him about the same color as Macaulay. Well, the world of course has not gone Hayek's way, but Myrdal has seen his heart's desire realized. And as Oscar Wilde said, the only thing worse than getting your heart's, not getting your heart's desire is to get it. I think that Myrdal actually became a little bit bored with the successes of the Swedish welfare state, and he thought that there must be something more important in life for him to devote his older, later years to than settling the petty squabbles of tenants in the housing developments of the middleway of Sweden. And so, he turned to southeast Asia, to India, Pakistan, now Bangladesh, and has done a vast study there. Actually, both men have been more than economists. Hayek is not only a learned scholar in that he can tell you when the doctrine of four savings first began or he edited beautifully the important and interesting letters of John Stuart Mill and Harriet Taylor, who was his, I guess we'd have to call, we'd have to say his girlfriend even

though she was married to John Taylor, but she did later become John Stuart Mill's wife after John Taylor, shall we say blissfully, passed away from the scene. Hayek has even written on psychology. He is a man of very, very broad learning. Well, Myrdal perhaps was getting a little bit bored by mainstream Keynesian economics in the 1930s. He and his wife, who is a scholar in her own right and perhaps an even more important political figure in the labor party in Sweden than Gunnar, I'm referring to Alva Myrdal, who has been an ambassador to India and who has been a cabinet officer and has had many other important functions and who I believe is by profession a psychologist. Well, they wrote in the 1930s a very famous book on the declining population prospect for Sweden. It received a great deal of attention. To Myrdal even became a slang word I think to procreate, and it was said I suppose in jest that the Myrdals had three children because they had to live up to their own recommendations. By the way, one of those children is Sissela Myrdal, the wife of Derek Bok, president of Harvard. Another one, Jan Myrdal, is an anthropologist of some fame in writing up China and something of a left winger. And I'm not sure about the third child. Well, that would have been enough to have constituted an important scholarly career for one man, but perhaps history will record that the great life work of Gunnar Myrdal was the study of the American Negro, called *An American Dilemma* which he did at the request of the Carnegie Foundation just before World War II. He says that he was picked for the job because he knew nothing about the problem and it was thought that a dumb Swede would have the innocence to be objective. In any case, he came to this country, he acquired a huge staff and made Baltimore his headquarters. He thought that was a good compromise between New York and Washington, and he turned out the great work, *An American Dilemma*, which still sells very well and which pointed out to Americans what they should have known but which we didn't know, namely that we were not in equilibrium in our black-white relationships. But on the contrary, there was a glaring discrepancy which could not stand between the American creed, which is something that we take seriously, it isn't just something that we trot out on the Fourth of July and on Sundays, it's something that bothers our consciences in a way that many South Africans are not bothered by their racial problem, and he pointed out that all is not well and this is documented in a scholarly fashion. Still, that wasn't enough for Myrdal. He went on to become head of United Nations for Europe. And at that time, in the late 1940s and in the 1950s, he provided a very important bridge between the western European countries and the eastern European socialist countries. Those were the days of the Cold War, those were the days of the Marshall Plan, and it was good to have one place in Geneva where problems in common were threshed out and discussed and negotiated. Moreover, he had quite a brilliant staff there so that the people looked forward to their reports. I'm referring to Nicholas Kaldor of Cambridge University, Professor Kaldor, now Lord Kaldor, Walt Rostow and still others were on that staff. I had to write that throughout his life, Gunnar Myrdal has been carrying on a lover's quarrel with the United States. He's always talking to us like a Dutch uncle, scolding us for not doing what he thinks ought to be done and which he thinks our own credo requires to be done. Well, let me conclude by saying what I think to be the most important lasting work in economics by Friedrich Hayek. I don't think it's *Prices and Production*. I don't even think that it's the pure theory of capital, although he has made some nice contributions to that subject. Indeed, if you want to see the best refutation against Major Douglas or the notion of underconsumption as a matter of the anatomy of the system, there's always a hole in the loop of purchasing power, you might look at his, I believe it's about 1929 or 1930, *The Paradox of Saving*, in which he shows that there might be a saving investment problem but there certainly need not be one merely for accounting reasons. No, I think that his most important work is in connection with the effectiveness and the philosophy of the free market system. Let me review an important controversy in the

field of economics. Ludwig von Mises, about the year 1920, wrote a famous study in which he said that planning under socialism is by definition impossible. He said the only rationality that is possible is the rationality of a market pricing system. This gave rise to a spirited debate in the 1930s. And finally we had the late Oskar Lange, then I think a traveling scholar in the United States from Poland and later to be the vice president of Poland and an important post-war official in the Polish government, and A. P. Lerner, Abba P. Lerner, who was trained at the London School but came to the United States shortly after the period I'm talking about, those two men took the viewpoint that you could use under socialism a kind of planning which was planning not to plan, which was to use the advantages of a pricing system but you're playing the game of competition and you're ruling out monopoly. I don't want to go into details, but each bureaucrat, the wheat bureaucrats were to take the price of wheat as given and then they were to respond in a non-monopolistic way, other bureaucrats were to act as auctioneers so as to clear the market. And they proved that contrary to what von Mises had said, it was possible to define rationally a good society without the market and it was possible to prove as you might say a logical theorem that under planning not to plan socialism, playing the game of a perfect competition, you could realize that definable optimum. And so, they said in effect, Ludwig von Mises is wrong, but as Oskar Lange said, the socialist state of the future will put up statues in the town square to Ludwig von Mises for having brought up an important question. Actually, the results of Lerner and Lange were recapitulating what had been done by Pareto and Wahlroos at the turn of the century, if not by von Wiesner in his natural value with his parable of a communist state even earlier. Well, you might say the debate's over and the pro-socialists have won, but Hayek in an article written about 1945 in the American Economic Review pointed the very great importance of information in real life situations, not in the textbook situations of the textbooks. And so, he provided, I think, a very important rebuttal emphasizing that we live in a world of uncertainty, and he said that decentralized enterprise is an efficient way of having each individual bring his little quantum of information into useful play. Well, anyone who overhears the current discussions in the law schools of America on the relationship of information to contracts, to torts and public regulation will appreciate, I think, that the Hayekian contribution still lives on. Well, I concluded my New York Times article by saying the 1974 joint Nobel award underscores the need in political economy for tolerance and eclecticism. I think I'm ready to stand by what I wrote, but after I wrote it, I've been receiving reactions from various friends in the economic area, and I might mention their contrasting reaction. My wife, who knows economists pretty well, said my god, is Hayek still alive? Well, of course he is very much alive. He left the University of Chicago before the retirement age, I suppose to go back to the land of his native tongue, but also because by acquiring a chair on the continent, in Germany for example, that's really a lifetime job. You don't take a cut in pay after you retire. You take a cut in pay as far as that part of the pay which comes from the fees of students, so that may have been a consideration. So he's very much alive and he's in the British Academy and I've received reprints from him. My younger colleagues thought Hayek a very odd choice. They didn't realize, of course, what his lifetime integral of accomplishment was, nor do they know much about his work in connection with the Mont Pelerin Society, which is a society meeting about once a year, usually somewhere in Switzerland, to push the cause, for a long time unpopular in these states these days, of liberalism in the old sense of laissez-faire, of libertarianism in modern life. Well, I think that the Royal Academy of Sciences can congratulate itself this year on a job well done.