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October 12, 2009, 11:40 am

Reactions to the Nobel in Economic Science

By [R.M. Schneiderman](#)

Update | 1:26 p.m.

Two social scientists, Oliver E. Williamson and Elinor Ostrom, [won the Nobel Memorial Prize in Economic Sciences](#) on Monday. Mr. Williamson won for his theory of why some business transactions take place inside of firms and others don't; and Ms. Ostrom won for her analysis of the rules and procedures that govern common property ownership.

Here is how economists and other pundits reacted to the news:

"The common theme underlying the prize this year is that markets do not solve all problems of resource allocation and incentives well or even at all. That is not a new idea. What is important is that people and societies find ways through organizational structures and arrangements, political and other institutions, values, incentives and recognition, and the careful management of information, to solve these problems. Professors Ostrom and Williamson have led the development of this increasingly important part of economics. In reading their work, you are impressed that economics is not really fundamentally about markets, but about resource allocation and distribution problems. Markets appear because they operate effectively to handle a subset of these resource allocation challenges. Alternative creative institutional arrangements have been devised and refined over time to deal with those that markets handle imperfectly." - [Michael Spence](#), senior fellow, the Hoover Institution.

Ms. Ostrom "is known for looking at ways that private individuals cooperate to manage what we think of as 'public goods,' or 'common pool resources.' For example, to prevent overfishing, mainstream economics says that government must regulate. Nobel laureate Ronald Coase says that an alternative is to define property rights carefully. Ostrom studied cases in which private individuals established rules that worked. Meanwhile, government regulations (including assignment of property rights) often failed, particularly when individuals did not buy in to the purpose of the regulation. With the advent of the Internet, the issue of private provision of public goods has emerged once again. Think of Wikipedia, or perhaps Twitter, or the various task forces that monitor security issues and define software standards." - [Arnold Kling](#), adjunct scholar, the Cato Institute.

"Elinor Ostrom may arguably be considered the mother of field work in development economics. She has worked closely investigating water associations in Los Angeles, police departments in Indiana, and irrigation systems in Nepal. In each of these cases her work has explored how between the atomized individual and the heavy hand of government there is a range of voluntary, collective associations that over time can evolve efficient and equitable rules for the use of common resources." - [Alex Tabarrok](#), professor of economics, George Mason University.

“Economics has been too isolated and these awards today are a sign of the greater enlightenment going around. We were too stuck on efficient markets and it was derailing our thinking.” - [Robert Shiller](#), professor of economics, Yale University.

“Apart from issuing my now-annual October lament that [Armen Alchian](#) and [Gordon Tullock](#) still do not have Nobel Prizes, I applaud this year’s selection of Elinor Ostrom and Oliver Williamson. Williamson’s 1985 book [The Economic Institutions of Capitalism](#) remains a classic that repays careful study, even in 2009. And Ostrom’s work on how people often solve public-goods problems voluntarily is too often overlooked — until today, that is!” - [Don Boudreaux](#), professor of economics, George Mason University.

“The way to think about this prize is that it’s an award for [institutional economics](#), or maybe more specifically [New Institutional Economics](#). Oliver Williamson’s work underlies a tremendous amount of modern economic thinking; I know it because of the attempts to model multinational corporations, almost all of which rely to some degree on his ideas. I wasn’t familiar with Ostrom’s work, but even a quick scan shows why she shared the prize: if the goal is to understand the creation of economic institutions, it’s crucial to be aware that there is more variety in institutions, a wider range of strategies that work, than simply the binary divide between individuals and firms.” - [Paul Krugman](#), professor of economics at Princeton University and last year’s recipient of this prize.

“[T]he short answer is that the economics profession is going to hate the prize going to Ostrom even more than Republicans hated the Peace Prize going to Obama. Economists want this to be an economists’ prize (after all, economists are self-interested). This award demonstrates, in a way that no previous prize has, that the prize is moving toward a Nobel in Social Science, not a Nobel in economics. I don’t mean to imply this is necessarily a bad thing — economists certainly do not have a monopoly on talent within the social sciences — just that it will be unpopular among my peers.” - [Steven D. Levitt](#), professor of economics, the University of Chicago.

“This award is a victory, in small part, for the Behaviorists, whose studies of our flawed wetware include such normal human foibles as irrationality, poor decision making, biases, nonprofit maximizing behavior. Why? As we noted last night, the odds-on favorite to win was the precise opposite of the behavioral economists — the father of the efficient market hypothesis, Eugene Fama. Users of his EMH have created various predictions markets. These markets had Fama the odds-on 2-to-1 favorite to win the prize this year. There is no small degree of irony here, in that Fama’s Efficient Market Hypothesis, where markets reflect all information on a given event, had so much wildly misplaced optimism on this occasion.” - [Barry Ritholtz](#), chief executive of Fusion IQ, an online quantitative research firm.

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4 Comments

1. 1. October 12, 2009 1:12 pm [Link](#)

These Noble Prize winners aren't saying anything most smart people interested in economics and political culture don't intuitively know already.

— *MARK KLEIN, M.D.*

2. 2. October 12, 2009 1:26 pm [Link](#)

On the contrary Dr. Klein, their work is a serious challenge to prevailing belief in the economics profession that anonymous markets are the all powerful delivers of all that is good.

Consider the extreme political popularity of crude market worship. Witness recent calls for the abolition of the Fed and the persistent denial of the reality of the Great Depression and our current troubles. These folks provide a useful counterbalance to professional and amateur stupidity.

Besides, I am delighted that we have yet another proof that anonymous, frictionless markets provide bad information.

— *Wonks Anonymous*

3. 3. October 12, 2009 1:51 pm [Link](#)

Funny how you say anonymous amatuer stupidity, yet sign it -Wonks Anonymous.

— *Steve*

4. 4. October 12, 2009 2:02 pm [Link](#)

Has economics accomplished anything? Lots of fine academic studies, but when we see leading economists in deep disagreement about to handle the 2008 panic and subsequent recession, we wonder if they understand anything at all. In a real science the principles have been demonstrated beyond a doubt and are universally accepted. Do economists understand economics any better than the old woman in the marketplace who knows that if crops fail food will become more expensive?

— *Jonathan Katz*

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Comments of the Moment

[“ Congratulation Ms. Elinor Ostrom for being the first woman to win this award and also for reminding us that facts and reason will have to prevail in the future of our economic organization.”](#)

— [christian guerrier](#)

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[“ Dr. Ostrom's work...is an intellectual challenge to economics, and this prize is a recognition \[of\] the limits of economic theory and methodology.”](#)

— [PhD student](#)

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[“ Why should we care? Economics as a science is on par with alchemy.”](#)

— [H Canu](#)

[Nobel Betting](#)

[“ Perhaps I will win. I am planning to make some big discoveries in a couple years.”](#)

— [aubrey](#)

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[“ After today's Peace Prize announcement, I would guess Bugs Bunny.”](#)

— [jessica](#)

[Nobel Betting](#)

[“ Fixed exchange rates are not helping in these cases.”](#)

— [Wonks Anonymous](#)

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“ Current corporate dogma represents a new feudalism and we serfs must cut our way out while we can.”

— R Matthew Songer
Big Is Bad Again

“ There are not three branches of the American government, there are four: the executive, the legislative, the judicial and the corporate. ”

— John C
Big Is Bad Again




“ I thought we weren't going to raise taxes on the middle class?”

— aubrey
Pelosi, the VAT and Club Wagner

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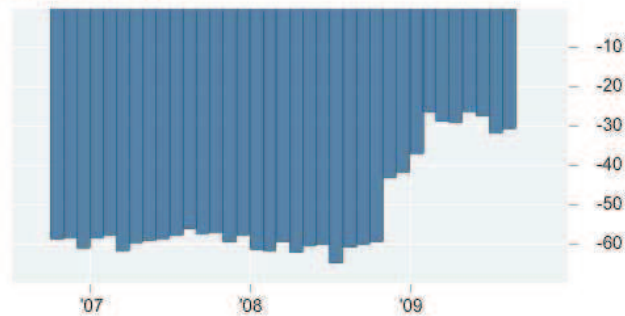
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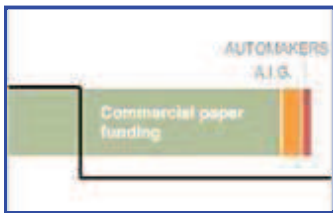


Both exports and imports have fallen; the balance typically shrinks during recessions

Source: Bloomberg

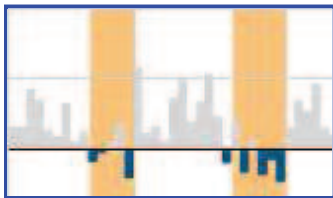
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