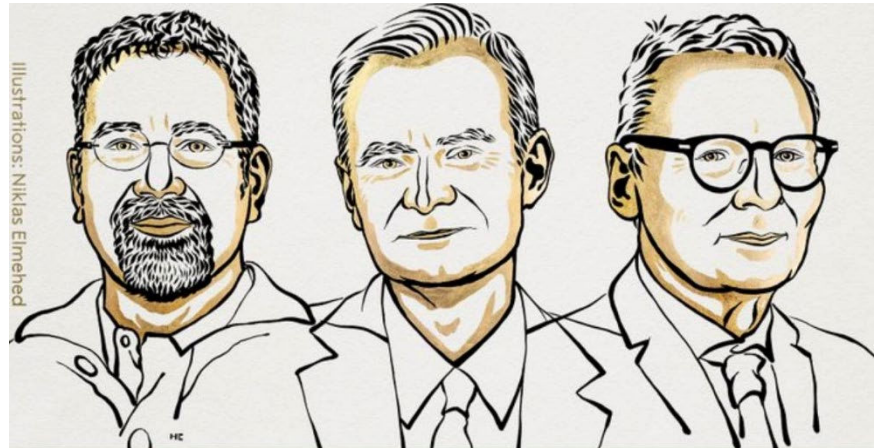


THE ECONOMICS NOBEL

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October 2024

Last week, Daron Acemoglu, Simon Johnson, and James Robinson won the 2024 Nobel Prize in Economics “for studies of how institutions are formed and affect prosperity,” according to the Nobel committee.

The prizewinners’ work is laudable and important because economics is downstream of political and moral philosophy. That is where economics originated in Adam Smith’s day. Smith’s first major work, before *The Wealth of Nations*, was *The Theory of Moral Sentiments*. Acemoglu, Johnson, and Robinson (henceforth AJR) tie these fundamental themes



together by studying how institutions that embed various political and moral philosophies influence economic growth and, thereby, the fact that some countries are so rich and others so poor. If their insights are largely correct (a matter up for debate) and applied wisely, they will help the poor become rich and the rich stay that way.

But AJR’s body of work has attracted criticism, to which I’ll turn shortly. Some of the criticisms are well founded.

The “institutions” that AJR study are not formal institutions such as government agencies, universities, and foundations, but something much more general and inchoate. In a 2005 article, the prizewinners quote the late Douglass North, who won the 1993 economics Nobel:

Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.¹

These include laws, political systems, and social conventions such as the formal and informal expectations that people have of one another. Most important, from AJR’s point of view and mine, are property rights, which are the basis for all self-sustaining economic growth because

¹ The North (1990) quote is from Acemoglu, Daron, Simon Johnson, and James Robinson. 2005. “Institutions as a Fundamental Cause of Long-Run Growth,” in Philippe Aghion and Steven N. Durlauf, eds., *Handbook of Economic Growth*, Volume 1A. Amsterdam: Elsevier, <https://economics.mit.edu/sites/default/files/publications/institutions-as-the-fundamental-cause-of-long-run-.pdf>, p. 388. The original source is North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*, New York: Cambridge University Press, page 3.

— why would I expend effort and treasure in making tomorrow better than today if I don't get to keep some of the gain?

Moreover, economics is about shedding light on human behavior. That is what AJR do, using a tool from the very beginnings of economic thought: storytelling. Economics is historically, and should be going forward, a big tent embracing methods ranging from pure storytelling to some of the most complex math imaginable.

WHAT'S WRONG WITH ACEMOGLU, JOHNSON, AND ROBINSON'S INSTITUTIONALISM?

Thus, AJR's Nobel is deserved. But I am sympathetic to some of the criticisms that it has attracted, including from people whose ideas and judgment I admire.

The criticisms fall into three categories:

- (1) Acemoglu, Johnson, and Robinson's (henceforth AJR) work isn't economics but something more like social science or political philosophy, and the economics Nobel is supposed to be for economics.
- (2) Although they're thought of as market-friendly economists, AJR have grown increasingly statist over time, with all of their recommendations involving giving more money and power to governments.
- (3) Some economists simply disagree with their methods or conclusions.

I find the first criticism absurd. I agree with the second. I'll ignore the third criticism, since disagreeing is what economists are supposed to do.

ECONOMICS AS STORYTELLING

So, is AJR's storytelling "economics"? Yes, it is.

Some economists say it isn't. Noah Smith, a popular and respected economics blogger,² doesn't go that far but complains that "big think" economics, which is a fair description of AJR's work, makes assertions and predictions that are not testable. In that way it is not like the hard sciences in which, no matter how brilliant you are, you don't get a Nobel if your theories are tested and come up short.

As a result, Smith isn't crazy about the economics Nobel in general, which in the past tended to go to big-picture thinkers who made impressive pronouncements on policy and the state of the world. He prefers more recent and, in his view, more scientific Nobelists such as Claudia Goldin, David Card, and Esther Duflo. Through what Smith calls "quasi-experiments," these researchers have dragged economics toward the ethic of the natural sciences, where you have to be proven right about something to win the prize. Smith also describes economics as a team sport and thinks the Nobel exaggerates the role of "superstar" individuals.

² Despite his decision (much appreciated by me) to become a popular writer, Smith is a "real" economist and former finance professor — he received his PhD from the University of Michigan for work on expectation formation in financial markets.

Smith elaborates:³

[AJR's theories about] how institutions affect growth...[are] basically political science theories about the relationship between elites and the masses. That's very interesting stuff. But without solid empirical confirmation that institutions really do affect growth in the way that AJR hypothesize — confirmation that may simply be impossible to get — there's always the chance that those theories are "explaining" a phenomenon that doesn't actually exist.

AJR identify a link between European practices in colonizing and settling non-European territories and the future economic success of those territories. The Nobel committee summarizes:

In some places the aim was to exploit the indigenous population and extract resources for the colonisers' benefit. In others, the colonisers formed inclusive political and economic systems for the long-term benefit of European migrants.⁴

Only the latter strategy succeeded in setting the stage for enduring prosperity. I believe AJR are basically right about this, and after much hemming and hawing Smith concurs.

But Smith's basic complaint, that AJR have done little other than tell stories, remains.

I disagree. The best economics *is* storytelling. One of the most powerful and basic economic stories ever told is that of Adam Smith's pin factory, wherein a solitary worker could "scarce[ly]... make one pin in a day" but, with specialization, ten workers each practicing their specialty can make 48,000 of them.

This kind of narrative economics was dominant from Smith to John Maynard Keynes and Milton Friedman. Only after Paul Samuelson in the 1950s made it almost impossible to succeed as an economist without the heavy use of math did the narrative tradition fade. AJR have helped restore it to its rightful place. Deirdre McCloskey explains (I quote her at length because she is, herself, a master storyteller):

"...[A]n economist is a poet but doesn't know it.

It is not hard to come upon economists, as good scientists, in the act of using stories for their science. Outsiders will find it easier to see the stories than will the economists themselves, because the economists are trained to think of themselves not as storytellers but as...builders of models.

³ Smith, Noah. "A Nobel for the Big Big Questions." *Noahpinion* (blog), <https://www.noahpinion.blog/p/a-nobel-for-the-big-big-questions>, October 15, 2024.

⁴ <https://www.nobelprize.org/prizes/economic-sciences/2024/press-release/>

Economists spend a good deal of time retelling stories that non-economists [already] tell..., such as: once upon a time the economy seemed to be doing fine but had a secret monetary illness, then the illness broke out, and therefore everyone became poor... Once upon a time the government cleverly reckoned it would drop taxes to achieve full employment, but the public had already discounted the move, and as a result the government ended up with egg on its face. Once upon a time a third-world country was poor, then it studied hard, saved a lot, and borrowed money and ideas from the first world, and therefore became rich.⁵

McCloskey concludes by saying that these stories aren't going to put Shakespeare or Austen out of business, but that they express valuable knowledge.

ECONOMIC IMPERIALISM

At this point I digress (but there's method to my madness) with a brief discussion of the way that economics, construed broadly, has taken over the rest of the human sciences. Although he had antecedents, Gary Becker (1930-2014), one of the greatest economists of all time, is usually blamed for the conquest. In an interview, Becker said,

[Economic imperialism] refers to my belief that economic analysis can be applied to many problems in social life, not just those conventionally called "economic." The theme of my Nobel lecture, based on my life's work, is that the horizons of economics need to be expanded. Economists can talk not only about the demand for cars, but also about matters such as the family, discrimination, and religion, and about prejudice, guilt, and love.⁶

And, an anonymous Wikipedia writer adds, "crime, law..., tastes, irrational behavior, politics, sociology, culture..., war, science, and research."⁷

Before you object that that's ridiculous — no field, let alone economics, can do that big a job — let me explain why *economic imperialism is a good thing*.

It's good because we become better informed about almost every facet of human activity when we take into account the power of incentives, the universality of tradeoffs, and the balance between costs and benefits considered broadly.⁸ These are the basic building blocks of economic thinking. "Doing economics" should not just be about solving for the equilibrium price and quantity as we do in Microeconomics 101, or crafting Fed policy to minimize

⁵ McCloskey, D. N. 1993. "The Rhetoric of Economic Expertise," https://www.deirdremccloskey.com/docs/pdf/Article_131.pdf, in R. H. Roberts and J. M. M. Good, eds., *The Recovery of Rhetoric*, Charlottesville, VA: University of Virginia Press. At the time this was written, and before that when she was one of my professors at the University of Chicago, she was known as Donald McCloskey and was a man. (More about that at https://www.deirdremccloskey.com/docs/pdf/Article_236.pdf.)

⁶ <https://www.acton.org/pub/religion-liberty/volume-3-number-2/economic-imperialism>

⁷ https://en.wikipedia.org/wiki/Economics_imperialism, accessed on October 20, 2024.

⁸ That is, social as well as direct costs; social as well as direct benefits.

unemployment and maintain stable prices as we *pretend* to do in macro. It should be about shedding light on human behavior as it is, and as we would like it to be. (Economics even sheds light on animal behavior!⁹)

And that is where I connect economic imperialism back to AJR. Even if Noah Smith and others think AJR's work is light on quantitative analysis, or an incursion by economists into political or moral philosophy, it *is* economics. And AJR's Nobel is deserved on that account.

By the way, the Nobel has often strayed from original intent, with good results. Bob Dylan won the Nobel literature prize (deserved) in 2016. He's not a truly superior *musician*, but his lyrics are nearly Shakespearean. They're literature. And the 2024 physics prize (deserved) went to artificial intelligence researchers, not traditionally a physics specialty — the Nobel committee describes the connection to particle physics and statistical physics [here](#). Interdisciplinary thinking is necessary for any discipline to advance.

DO ALL SOLUTIONS TO ECONOMIC PROBLEMS COME FROM GOVERNMENT?

There is a more damning critique of AJR, or more specifically of Acemoglu, and I have some sympathy with it. The critique is that, straying from his longstanding centrism or even classical liberalism,¹⁰ Acemoglu has — this is not unusual — fallen in love with what he's been studying, in this case state power. (It is a legitimate riposte to say that free-market economists have fallen in love with what *they* study, the unregulated marketplace.)

In the longstanding debate over where to draw the line between free markets and government guidance of the economy, Acemoglu has drifted farther and farther toward the side of central planning. That is why, after [favorably reviewing Acemoglu's *The Narrow Corridor*](#) (2020, with Robinson), I declined to review *Power and Progress* (2024, with Johnson) when the online financial magazine Advisor Perspectives asked me to. I didn't want to insult Acemoglu, whom I've found to be very gentlemanly — my reviews can be biting — nor did I feel qualified to offer a full-blown critique of the economics in the book. But I disliked the underlying message, which is that changes in government policy, all of them involving more spending of other people's money, are the key to progress and the good life.

The Narrow Corridor elegantly made the case that there is such a thing as too little government as well as too much. State power, used wisely, keeps a society from degenerating into what Thomas Hobbes, author of *Leviathan* (1651), called “the war of all against all.” Too much state power and you have the Soviet Union; too little and you have Somalia.

⁹ See, for example, Addessi, Elsa, *et al.* 2019. “Are the roots of human economic systems shared with non-human primates?” <https://www.sciencedirect.com/science/article/abs/pii/S0149763419306955>. Moreover, in formulating the theory of evolution through random variation and natural selection, Charles Darwin was strongly influenced by Adam Smith's and Thomas Malthus's description of economic competition among humans.

¹⁰ Edward Glaeser, the Harvard economist and urbanist, wrote (with several co-authors) in 2004, “It is fair to say that recent work, including... [among many others] Acemoglu *et al.* (2001, 2002)... has reached close to an intellectual consensus that the political institutions of limited government cause economic growth.” See Glaeser, Edward, *et al.* 2004. “Do Institutions Cause Growth?” https://www.nber.org/system/files/working_papers/w10568/w10568.pdf.

The happy medium, the narrow corridor, contains the most successful countries and today includes the US, UK, Canada, and Sweden. There have been other examples in the past, including the distant, undemocratic past. AJR call the kind of state they favor “the Shackled Leviathan,” powerful but constrained.

This is neat stuff and I hoped for a deeper elaboration in *Power and Progress* but it wasn't there. Instead, it was a call for a kind of expert central planning that caused the usually erudite and witty Deirdre McCloskey to become furious:

...[I]t's nice for Turkey to have a Nobel. Erdogan will be pleased, because Acemoglu's theme fits the current regime. Top down. Hurrah for the Masters. Bigger government. Ah, glorious...

His theory...fits smoothly with what people nowadays love to hear, on their road to serfdom — that good policy is super easy and that our masters are super skilled at doing it. The theory makes us feel safe, like children waiting to be fed. We don't individually need good ethics, professionalism, or high political ideals. Mama and Papa State take care of all that.

Acemoglu loves the state... He claimed in a book with Johnson, for example, that “Government subsidies for developing more socially beneficial technologies are one of the most powerful means of redirecting technology in a market economy.” Like the declared leftist economists Thomas Piketty and Mariana Mazzucato..., he regards the private economy as mainly imperfect and the U.S. or Brazilian state [which he praised for an anti-free speech decision] as perfect in fixing the imperfections.... On what planet...does Acemoglu live?¹¹

WOW.

CONCLUSION

Although McCloskey is on the right track, we have to have a government, and some investment by government in public goods is right and necessary. It is one of the three main reasons that we have a government: to set and enforce rules of the game, charge or pay for externalities, and purchase public goods.

Governments can contribute to the progress of technology and the economy. The questions are how to do so, and how much to spend. If you're trying to put a man on the moon once, as quickly as possible, government is just about ideally configured to do that. If you're trying to build a culture that nurtures innovation and progress, government mostly has a role as rulemaker and enforcer and then should get out of the way. Economic progress, as AJR have argued at other times in their careers, comes from individual freedom and property rights. It comes from people being motivated — by the hope of personal gain! — to produce a little more tomorrow, perhaps with less effort and fewer resources, than they did today.

¹¹ McCloskey, Deirdre Nansen. 2024. “A Statist Nobel.” <https://mccloskey.substack.com/p/a-statist-nobel> (October 14).

A consistent application of these principles would not have led AJR in the statist direction they've recently taken. Given the massive size to which governments around the world have grown — *Leviathan* indeed! – free markets and limited government are a very good starting point for thinking about rationalizing government's role in the economy.

Laissez-nous faire! Laissez-nous passer! But with guardrails.

WEEKEND UPDATE!

After I finished this article, James Robinson said on NPR that “the adoption of a free-market economic model in the 1980s...generated enormous inequality and basically has done nothing for the majority of people in this country... That is a well-established fact that every economist agrees on.”¹²

It is not a fact but an opinion or interpretation.

Robinson can speak for himself but not for “every economist.” Many economists disagree on the premise — Russ Roberts says that the model “wasn't adopted at all”¹³ – and others disagree on the results, pointing out that median (not mean or average) personal incomes in the U.S. rose, on a real (inflation-adjusted) basis and stated in 2023 dollars, from \$26,340 in 1980 to \$42,220 in 2023, a 60.3% increase.¹⁴

In addition, Robinson's comment suggests that, in evaluating market-oriented policies, one should only care about people in the United States. Robinson ought to check out the calorie budget for people outside the First World in 1980 and 2024 and get back to us on that.

¹² <https://www.marketplace.org/shows/marketplace-morning-report/do-people-trust-government-to-deliver-prosperity-ask-this-years-nobel-laureate/>

¹³ <https://x.com/EconTalker/status/1849489834332639690>. Roberts, host of the popular EconTalk podcast and president of Shalem College in Jerusalem, received his PhD in economics from the [University of Chicago](#) in 1981 for his thesis on the design of [government transfer programs](#) under the supervision of [Gary Becker](#).

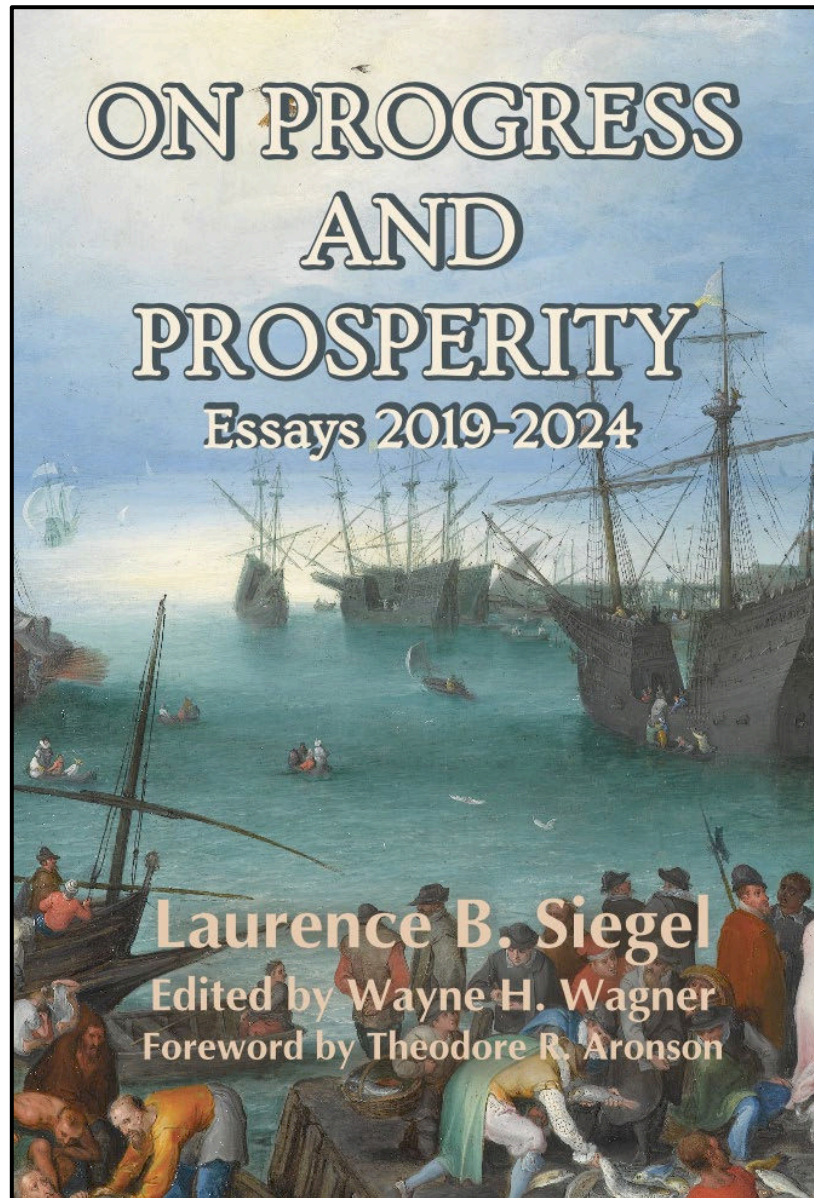
¹⁴ These data are from the Federal Reserve Bank of St. Louis's FRED database. We are more accustomed to seeing the higher “household income” numbers but the average number of people per household shrank over the period so that household income grew more slowly than personal income (but it still grew).



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The author thanks Stephen C. Sexauer, CIO of San Diego County Employees Retirement Association, for his extensive contributions; and David E. Adler, economic author and frequent contributor to *American Affairs* and *City Journal*, for critiques and conversations.





*Soon to be available on Amazon in hardcover and Kindle formats!
Watch this space.*