

The Nobel Prize for Mythical Finance and “Columbus’ Egg”: A Suspension of the Nobel Prize in Economic Sciences?

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Short Communication

Once again, the Academy of Sciences has awarded the Nobel Prize for economics, which has become a mythological and very “interested” science, to US scholars - Hart and Holmstrom - strictly quantitative and finance oriented, since no one studies economics any more. The two scholars concern themselves with providing indicators to measure the bonuses of top managers with respect to the real value of the companies they govern. Their studies deal with contracts, bonuses and remuneration, but do not remotely attempt to understand the motivational role of those remunerated, or whether their objectives are short or long term, or if they are aimed at creating shareholder value or poverty for workers, or even whether they have a bygone objective that used to be defined a common good [1].

The distorted awarding of the prize to a sociocultural model where finance is sacred has come to create a society that is entirely asymmetrical to the Universal Declaration of Human Rights where not a single premise of the values indicated is respected in society and is bringing us to the brink of the abyss. The Academy was founded by Alfred Nobel who died in solitude on 10 December 1896. Torn by the fear that his discovery of dynamite would be an instrument of death and not of well-being for society, he bequeathed his estate to an ideal human society able to achieve the universal values of human rights: freedom, equality and solidarity. The values were an invitation to politics and science to give substance and value to human dignity. In his handwritten will, he stated that the proceeds of his assets were to go towards a prize each year awarded to scholars who in their fields “shall have conferred the greatest benefit on mankind”. Alongside and after the positive sciences - chemistry, physics, medicine - prizes were to be awarded for literature to those who had produced “the most outstanding work of an idealistic tendency”. Finally, the prize he perhaps cared most about, namely, the peace prize, was to be awarded “to the person who shall have done the most or the best work for fraternity between the nations and the abolition or reduction of standing armies”. Alfred Nobel’s wishes were very clear, carved in stone without the possibility of false interpretations, functional to creating a balance to the meaning of life suspended between the spirit world and the world of experience. Over time, however, his indications seem to have progressively blurred in favour of criteria for certain prizes that do not always coincide with his wishes. In 1969, the prize for economics was established, but not foreseen by Nobel, and is in fact financed by the Bank of Sweden and contended by the very scholars in this field. Von Hayek himself was undecided until the last moment whether or not to accept the award in 1974. In effect, Alfred Nobel had foreseen prizes for the measurable sciences and awards imbued with the spirituality of sentiments - literature and peace - but economics, the newcomer, was positioned in an intermediate field and as a social and moral science could not be treated as a positive science, but having to contribute to achieving practical needs could not be studied without elements measuring the expediency of choices in the presence of scarce resources [2].

The award, as Von Hayek warned, would however contribute to changing the “DNA” of economics, assigning it to the world of exact sciences, which transformed an instrumental science into a purposive

science able to define a concept of societal “welfare” in a completely different and asymmetrical way from what Alfred Nobel had intended. The ensuing cultural context contributed to changing the dominant values of society and accelerated the progressive cultural decadence.

Since the late sixties, in awarding the prizes for literature, economics and peace - the three prizes with the most obvious contradictions - the anomalies have become more apparent, favouring a cultural model and its interests that have brought us to the true crisis of our time, the anthropological crisis that we still refuse to see.

Since 1969, when the first prize for economics was awarded, American scholars have won the lion’s share. In the 44 years of Nobel prizes in economics, one or more than one have been awarded the prize 41 times: a monoculture without inconsistency and change 41 times out of 44. Only in three years did they not win: 1969, 1974 and 1988. The trend was accentuated after the fall of the Berlin Wall when the awards rained down on scholars of finance who defined the financial markets as rational and exact without possibility of error. Finance has become a sort of hegemonic weapon over States able to exert pressure on the policies of individual States and on global choices. Wealth is thus created without States and States without wealth, a model of an individualistic and conflictual society in which moral sense is subservient to personal interests and the strongest command. Yet, is the soul of this cultural model able to inspire feelings such as kindness, altruism, solidarity, respect for humankind, in short, the ideals that Alfred Nobel sought?

The answer can be found with disarming evidence in the prizes awarded for literature. In fact, since the end of the 60s, the United States that seemed omnipotent has in essence only won one real prize in literature. Morrison, in 94, expressed the racial pain of coloured minorities, now majorities; Bellow in 76 and Singer in 78, were the expression of the European culture where they had lived for a long time before moving to the United States. The other awards over the years have been divided among different countries where the type of well-being expressed by the economy was absent or irrelevant - for example, Ireland, Peru, Chile, Saint Lucia, Poland, Romania, Greece [3]... The two cultural models are opposed, without the possibility of dialogue and sharing because the interests of economics and finance put the maximization of self-interest in first place and not the “common good”, exactly what Alfred Nobel wanted to avoid. The legitimacy of

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the single thought has suffocated the imagination and the universal values of freedom, equality and solidarity. In the words of Pascal, "l'esprit de finesse" was finally separated from the "esprit de geometrie", but rational man arrived at the end of the race. Everyone is responsible, albeit in different ways, because everyone contributed, even in silence, to ascribing the value of incontrovertible truth to these positions.

The technical-rational culture of the post-modern era prepared by the field of speculation since the Enlightenment with Kant, Hegel and then Marx transformed economics into an exact science by studying only what is measurable. The materialistic objectives promoted by capitalism and liberalism assumed as an end and not a means contributed to the creation of a society aimed at achieving self-interest at the expense of the common good and the normalization of unlawful behaviour. This has increasingly forced dominant interests to legitimize such studies with the Nobel Prize that elevated their achievement to ultimate truth but not the real sciences, eventually disrupting the system of social relations, because the dogma has become 'live to earn' and not vice versa. This year once again, in rewarding the disrupting sociocultural model of human society, the Academy has deeply betrayed the noble intentions of Alfred Nobel.

Understanding the deviations of economic studies transformed from a social and moral science into a merely quantitative, exact and positive science requires understanding the causes that favour the interests of the few at the expense of everyone else.

At the end of World War II, the global dramas led to defining the universal and "inalienable" rights of man and the technical operational rules of economics in such a way as to guide global policymakers to restore the dignity of man as a person and not as he is in fact today.

The two principal points were defined at Bretton Woods with the establishment of the International Monetary Fund and the "gold exchange standard". The first had a Keynesian type institutive purpose that has long vanished in practice, while the latter bound currency to a real equivalent, in this case gold, to avoid the indefinite printing of paper money that only creates damage and has no value as it is in itself sterile; at the time \$28 per gram of gold could be printed. Paradoxically, it was precisely the United States that wanted this constraint because at that time they were the creditors and could not tolerate the idea that paper would turn into tradable "tout court" currency. Bretton Woods has been a war (The Battle of Bretton Woods, Benn Steil, 2013). Not a "gentleman agreement".

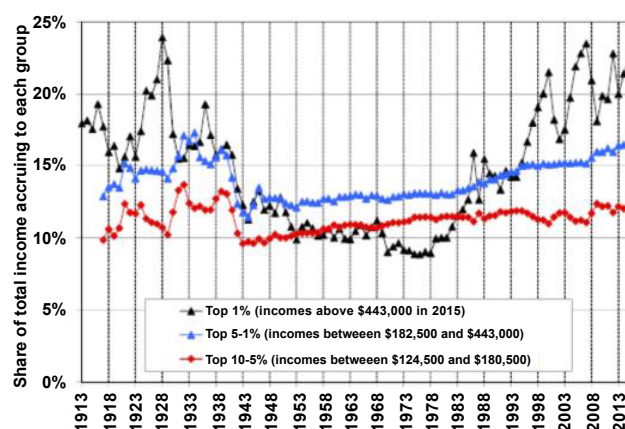
The aim of the US was to dollarize the world to make the dollar into a universal currency (Harry White), unlike J.M. Keynes who wanted a single supranational currency, the *bancor*, to prevent the collapse of the dollar leading to everything else collapsing. He found it difficult to conceive whether the printed or printable dollars would equal the required amount of gold; which would have been precisely the case.

The US feared and wanted to subdue the UK and begin the first power in the world thanking their money-gold. De Gaulle defined the gold exchange standard as a way of considering the dollar as if it were gold. 1971 saw the end of a history that had begun 2,500 years earlier; the dollar was the last ship moored to gold to enter the storm in which we find ourselves today. Keynes was right, "Economists set themselves too easy, too useless a task, if in tempestuous seasons they can only tell us, that when the storm is long past, the ocean is flat again". We see it today.

Keynes, talking about the birth of the International Monetary Fund and the World Bank, invoked the blessing of the three fairies to bestow

impartiality, strength and wisdom. He expressed the hope that the master of ceremonies would not forget to invite the fourth (bad) fairy to the baptism, who out of spite would curse the newborns by turning them into two politicians. So after we will have capitalism as end and not as mean; finance to short term and not real economy (long-term). Keynes died in 1946 but he saw the future of history exactly like in 1921 when during "Versailles conference" was against the France idea to push the German to pay the war expenditures, saying "In this way we will have another war". At the same way he said before 1946: "The decadent international but individualistic capitalism in the hands of which we found ourselves after the war is not a success. It is not intelligent. It is not beautiful. It is not just. It not virtuous, and it doesn't deliver the goods".

From 1948 until the end of the 70s, the rules held, giving life to the post-war boom with a fixed exchange rate system and an improvement in social values. However, at the end of those years, the Western world changed for the worse. Observing the post-war improvement curves shows the turnaround in exactly the same period of time, namely, 1971-1975/6. Finance ended up being the most useful means to achieve personal interests, the real economy suffered financialization and its dematerialization with manufacturing systematically outsourced, as the following Figures clearly show (Figures 1-6):

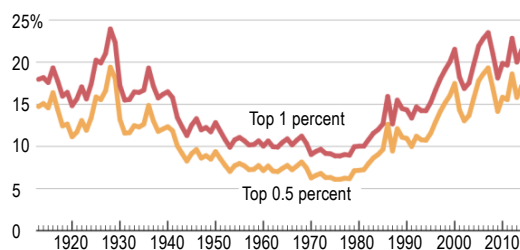


Source: Income inequality in the United States, 1913-1998 with Thomas Piketty, quarterly Journal of Economics, 118(1).

Figure 1: Decomposing the Top Decile US Income share into 3 Group, 1913-2015.

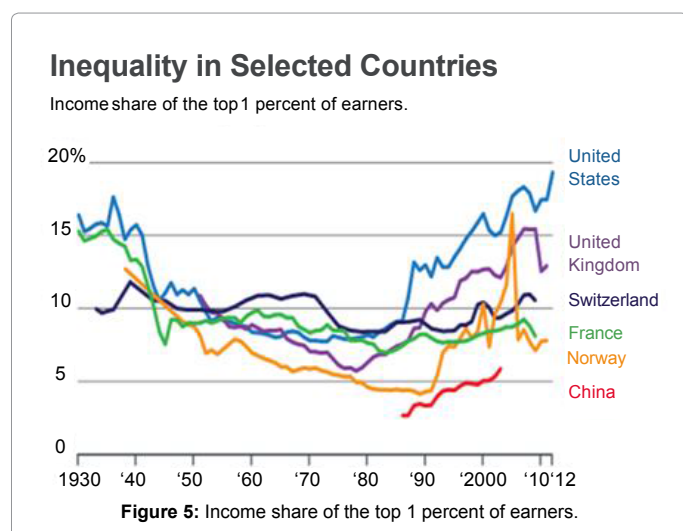
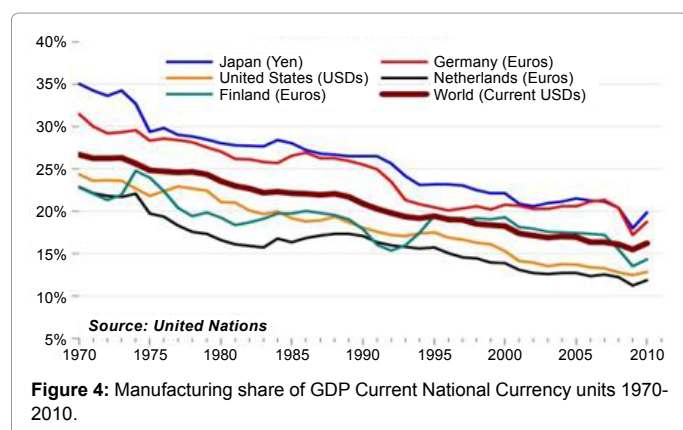
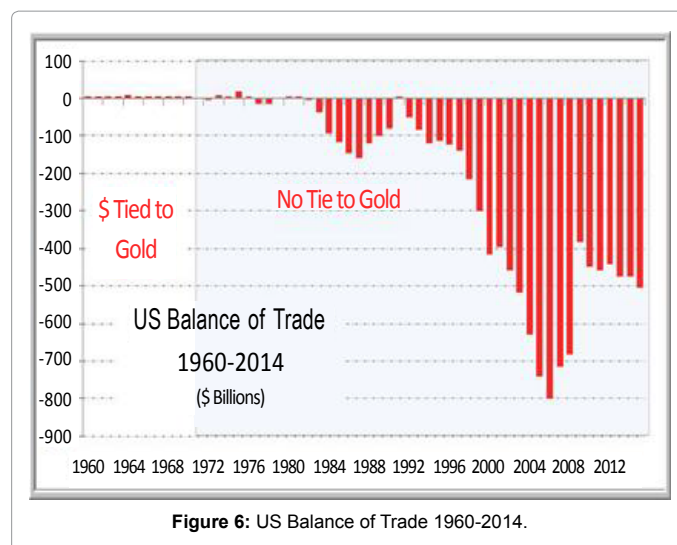
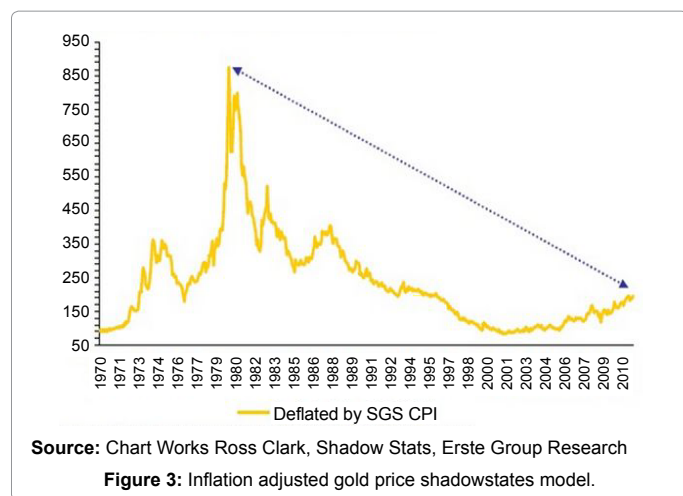
Income Concentration at the Top Has Risen Sharply Since the 1970s

Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2015



Source: Emmanuel Saez, based on IRS data

Figure 2: Share of total before-tax income.



“Columbus’ egg”: the truth negated before our very eyes. The change in the course of our history happened in those five years and is actually the Columbus’ egg that nobody wants to see. In 1971, the United States under the pressure of Vietnam and the student revolts began to print paper money with no respect for the Bretton Woods constraints (\$28 for 1 gram of gold) and thus their creditors (the US had become debtors) wanted to be paid in gold and not in dollars whose

value was increasingly undefined. Nixon then unilaterally declared the end of the Bretton Woods agreement, separating the printing of money from a real counter value and throwing in a flexible exchange rate system (we endured the inflationary wave of the petrodollar designed specifically to create demand for dollars); from here, mythological and sacred finance began to grow [4].

In fact, two opposing systems were generated: the immaterial, infinite, unregulated and unmeasurable finance and paper money system, and the finite, material and measurable system of our world.

In the absence of real constraints, money assumed an infinite dimension and finance espoused this infinity, which is exactly and logically the opposite of a finite reality. Science allegedly affirmed such infinity, which in itself does not have a unit of measure, to measure the real world that is instead finite and measurable. Aristotle’s principle of non-contradiction states “A” cannot simultaneously occupy the position of “not-A” but is invalidated by contradicting the principles of logic and manipulating the facts. This ushered in the era of infinite money with a dominant role based neither on scientific grounds nor on simple logic. The material finite became prey and hostage of the immaterial infinite and everything turned into a play of light and shadow as in the Chinese theatre where something can be seen yet constantly eludes.

When the printable volume of money became unlimited and uncontrollable, monetarism acquired an unnatural role because it raised infinite money above the finite, illogically determining its value and detached from reality. The trends of the financial prices of real assets were determined and influenced by endless speculation with exchanges that never closed, generating infinite financial volumes that nobody controlled. The prices of real assets and currencies were no longer based on real quantities but on endless bets as the oil and grain markets showed [5].

Everything became finance and the Nobel Prizes justified Greenspan’s total deregulation in 1999 with derivatives, other toxic products and the abolition of the Glass Steagall Act that separated investment banks from ordinary credit banks, allowing the wolves to enter into the defenceless sheep’s pen. The following graphs show the explosion of finance and toxic products such as derivatives that from 1990 to 2010 went from 1/20 to 20 times global GDP (Figures 7 and 8).

Finance and Insurance Value Added as a Share of GDP

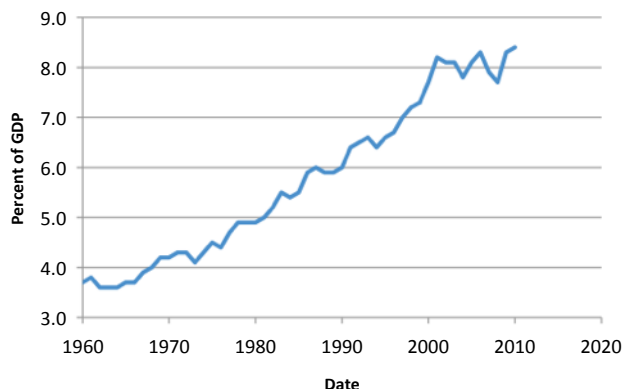
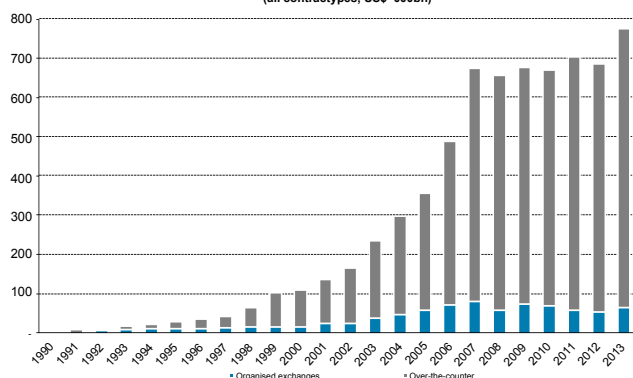


Figure 7: The graph between Finance and Insurance Value added.

Global Market for Derivatives (all contract types, US\$ '000bn)



Source: Bank for International Settlements (BIS)

Figure 8: Global Market for Derivatives.

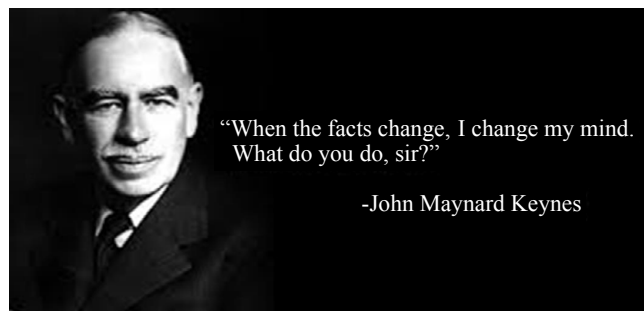


Figure 9: John Maynard Keynes.

It is quite clear that the two systems are irreconcilable, but the greater interests have made finance the incontrovertible truth and we bought it all - spread, credit ratings, derivatives, monetary-GDP, oil, euro-dollars - without blinking but as always, history will present the bill. Finance that is totally deregulated and distant from the real world can at the will of a few manoeuvre prices, sustainability indicators and make believe that they are true. That model was developed without limits in the US, which has been stripped bare, becoming debtors in the world and close to a socio-cultural collapse, and as always, the "nemesis" arrives. Perhaps we should return to the gold exchange standard, but that moment would mark the end of the dollar as well as a history. We can close this paper again with Keynes (Figure 9): And Us?

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