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To the President of the Royal Swedish Academy of Sciences

Proposal for an investigation by the Royal Swedish Academy of Sciences of its continued involvement in the awarding of the Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel

As a member of the Royal Swedish Academy of Sciences, I hereby ask to submit a proposal. The case in question applies to the Academy's commitment to the awarding of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel (henceforth the Nobel Prize in Economics). As is known, this prize was not instituted as a result of Alfred Nobel's will, but was added in 1968 as a result of a donation from the Bank of Sweden (Sveriges Riksbank). The Swedish Royal Academy of Sciences is responsible for selecting the prize winners following the same principles as for the Nobel Prizes in physics, chemistry and medicine.

The Prize has since its creation been controversial. The criticism has partly been focused on the discipline of economics not being on the same scientific standard as the disciplines mentioned above. Another type of criticism has been that this Prize has been politicized because it has often been given to economists who preach the ideology of market liberalism. The first critical point, I consider incorrect but the other one may have some justification. The question I now want to address is, however, in my opinion, of a considerably greater importance compared to the two objections mentioned above. The background is the research I have been doing since 2004 when I together with my colleague, Professor Sören Holmberg, started a research program titled *The Quality of Government Institute at University of Gothenburg*. This research program has received funding from the Bank of Sweden Tercentenary Foundation, the Knut and Alice Wallenberg Foundation, the Swedish Research Council, the European Research Council and the European Union's Seventh Framework Program. A summary of the research results has recently published (Rothstein, 2015).

This research has in large parts been focused on the presence and effects of corruption and problems related to corruption. To make a short summary, one of the main results of this research is that corruption is a much more extensive and more serious societal problem than has previously been considered to be the case. Comparing countries or regions, research results show negative effects of corruption on almost all standard measures of human well-being such as infant mortality, economic prosperity, life expectancy, the percentage of

children living in poverty, the proportion of the population who have access to safe water, the percentage of women who die when giving birth, people's willingness to resolve environmental problems, and more. Corruption has also recently been shown to be an important explanation for the outbreak of civil wars and wars between states. Furthermore, corruption also has strong causal links with more subjective measures of well-being such as the extent to which people consider themselves satisfied with their life, consider themselves to be happy and to what extent they believe they can generally trust other people. In addition, corruption has strong negative effects for the legitimacy of the political system. The negative effects of corruption usually remain strong also after controlling for factors such as economic prosperity and degree of democracy.

Although measurements of the degree of corruption in various countries are associated with certain difficulties, a conservative estimation is that more than seventy percent of the world's population lives in countries where the level of corruption and corruption related problems are high. This implies that it is not a lack of financial capital, human skills or natural resources that are the main problems in terms of human suffering in today's world but instead high levels of corruption. It may be added that the problem of unethical behavior has also been shown in a number of widespread corruption scandals in world leading companies such as Siemens, Enron and now recently in the Volkswagen Group.

No modern societies are free of corruption since this would be as utopian as a society free of crime. However, it is important to point out that widespread corruption is by no means something that only exists in developing countries. Several studies of, for example, the economic problems in Greece and Italy, point out precisely corruption as a root cause. There are also analyzes indicating that the collapse of the financial markets in 2008 can be explained in terms of corruption (Johnson 2009, Johnson and Kwak 2010, Kaufmann 2008). As with the level of crime, the degree of corruption among different societies varies starkly. Societies that have comparatively low corruption according to most measures are the countries in Northwester Europe as well as Australia, Canada and New Zealand. Compared with neighboring countries, Botswana, Chile and Estonia are doing well.

The causes of corruption are manifold, but a surprising research finding is that people in countries with severe corruption by no means internalize this behavior as part of their culture. On the contrary, in general they strongly reject to such behavior, and they also realize that corruption seriously damages their societies. The reason that they participate in this business is that they do not perceive that they have a real choice. It makes little sense to be the only one in the village who do not pay the doctor under the table to get medical care for the children. It is probably not only pointless but also dangerous to try to be the only honest police officer in a Mexican police force. Corruption is, in other words, a so-called frequency dependent problem in the sense that if one believes that the "everyone else" is involved in this shady business it is pointless to not do the same as "everyone else" (Persson et al., 2013). In a different wording, the agents are locked into a *social trap* because of their distrust of the other agents (Rothstein, 2005).

A crucial question then is where these ideas about "what everyone else is doing" come from. The evidence suggests that they are for the most part generated by how the political and economic elite in the society is perceived (Rothstein and Teorell, 2015, Rothstein, 2013, Rothstein, 2011). If the elites are known to be engaged in various sorts of corruption, this spreads quickly downwards in society. The German proverb "the fish rots from the head down" seems fitting. The ethics of those in charge of companies and public institutions play a

big role and this implies that the ethical dimension in the education of these groups is of great importance.

One problem in this regard is that there are substantial differences when one examines the perceptions of these ethical problems that different university educations generate. Several independent research reports show that those who study economics are more prone to corruption and other forms of unethical behavior than those studying other subjects (Frank et al., 1993, Frank et al., 1996, Frank and Schulze, 2000; Etzioni, 2015, Frey and Meier, 2004; McCabe et al., 2006 Manganese, 2006, Klein et al., 2007 Huhn, 2014). This first appeared in a number of so-called experimental studies that put the students in various hypothetical situations. These studies have recently been supplemented by a study done on real data by René Ruske (2015) who has compared members of the United State Congress. Ruske's study based on real data shows that members of the United States Congress who have a degree in economics are twice as likely to have been involved in corruption compared to those without this type of education. One explanation for these results seems to be that there is an ideological element in economics that emphasize the importance of selfish behavior - the notion of a so-called "homo economicus".

The experimental research also shows that this dysfunctional behavior is not just something the students bring to the program, but that it is for the most part an effect of what they learn. It may be added that economics students trust others less, and they are also less trustworthy and that these differences increase during their education (Müller and Haucap, 2104). When this kind of self-interested behavior becomes a template for behavior, there is an imminent risk that the agents will outsmart themselves into a suboptimal equilibrium in which they become deadlocked because of their lack of trust in each other.

These results are troubling because education in economics often leads to high positions in society. It is also problematic in light of the Academy's engagement in awarding one of the world's most prestigious scientific prizes - the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. If it is true that studying economics increases tolerance for corruption and fraud, this is a very serious problem in the light of the above research findings. The Prize is then to be seen as being diametrically opposed to Alfred Nobel's will, which stipulated that the prizes would be awarded to "those who, during the preceding year, shall have done the greatest benefit to mankind." A prize that risks contributing to increased corruption in the world and reduced trust between people must be understood as the exact opposite of what was Alfred Nobel's will when instituting the Nobel prizes.

It may be added that in recently, some leading economists has pointed at this issue, i.e., that business schools tend to lead to a lack of ethics among students. One of these is Jeffrey Sachs of Columbia University. He writes:

“students trained in egoistic game theory, notably in university courses in neoclassical economics, are less likely to cooperate in laboratory settings. There is now a large literature on the lower levels of pro-sociality of economics students compared with non-economics students..... The findings of low pro-sociality among economics students are robust; the interpretation, however, has differed between those who have identified self-selection as the cause and those who have identified the content of neoclassical economics training as the cause. In short, does economics attract students with low tendencies towards pro-sociality, or does it make

them? The answer, after three decades of research, seems to be both. There is an element of self-selection, but there is also a clear “treatment effect,” according to which pro-sociality declines as the result of instruction in mainstream, egoistic game theory and neoclassical economics more generally” (Sachs, 2015, p. 159).

Another prominent economist who has raised this issue is Luigi Zingales of the University of Chicago. In a highly acclaimed book, he devotes an entire chapter to this problem criticizing the education carried out in business schools for not living up to the ethical standard that is required for the preservation of functional markets. Instead, according to Zingales, most educations in economics create an elite that is "less concerned about the common good" (Zingales, 2012, p. 175).

Elinor Ostrom, winner of the Economics Prize in 2009, are also among those who has warned of the consequence of students educated in this economic thinking. In her Presidential Address to the Annual Meeting of the American Political Science Association in 1998, she issued the following warning: "We are producing generations of cynical citizens with little trust in one another Given the central role of trust in solving social dilemmas, we may be creating the very conditions that undermine our own democratic ways of life" (Ostrom, 1998, p. 18).

One problem in this context is that economics in a recent study proves to be the most isolationist discipline in the social sciences. While disciplines such as political science, sociology and philosophy often takes into account and relate to economic research, the inverse relationship exist in economics. Survey data also shows that economists are far more skeptical of interdisciplinary research collaborations than historians, sociologists, political scientists and psychologists. This self-chosen isolationism by the discipline of economics means that the opportunity for students of economics to get knowledge about the importance of ethics and social norms from disciplines such as sociology, political science and philosophy, where these issues have a central role, must be assumed to be severely limited (Fourcade et al., 2015).¹

As a member of the Royal Swedish Academy of Sciences, I wish to take an initiative in this matter. My proposal is that the question if the Nobel Prize in economics can be assumed to be in accordance with what is stated in Alfred Nobel's will, should be urgently investigated by the Academy. If it turns out that the research results mentioned above are valid, in order to be true to its own ideals and Alfred Nobel's will, the Academy should terminate its involvement with this prize.

My first proposal is that the Academy's Presidium should appoint a committee consisting of three to five members who will be given the task to investigate whether the above-mentioned research results should lead to a decision by Academy to end its involvement in the selection of prizewinners. Members of class nine in the Academy, (i.e., the social science class), should arguably not be members this committee as they may be considered having a conflict of interest in this matter (but they can of course be called upon to be heard by the committee).

¹ A suggestion from me to the Academy's ninth class meeting on 26 May 2015 to investigate the question of a broadening of the prize was rejected in unison by the majority of class members who are economists. The proposal was to undertake an investigation if the name of the prize should be changed to "Economics and other social sciences."

My second claim, based on my overall assessment of the research presented above, is that until such an investigation is completed, the prize should be declared in moratorium

It is for the President of the Academy to decide whether this proposal should be handled by the Academy Board or whether it should be brought up for decision at the Academy's General Meeting. The latter could perhaps be justified by that according to the Academy's basic rules, decisions on matters of "great importance" are to be taken at a General Meeting. Naturally, I remain available to present this matter at either.

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