The Nobel Prize in Economics is facing scrutiny. Critics argue that economics isn't a true science, and that the prize lends misleading authority to a discipline that is often ideologically motivated. Some even call for scrapping the prize altogether. Can the Nobel Prize in Economics still be justified, and if so, how?

The Nobel Prize in Economics: Should it be Scrapped or Strengthened?

Rough English translation of:

"De Nobelprijs Economie: Afschaffen of Opwaarderen?" (2025). Karakter: Tijdschrift voor Wetenschap.

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As economists, each year we eagerly await the announcement of 'our' Nobel Prize. We speculate on potential winners, placing friendly wagers on the outcome. Though our prize is presented the Monday after the prestigious Peace Prize, we economists tend to see it as the real highlight of Nobel week. Yet, in our excitement, we conveniently ignore the awkward truth that our prize isn't technically a 'real' Nobel Prize—it was a late addition to Alfred Nobel's original categories, introduced by none other than Sweden's Central Bank, an institution predominantly run by, indeed, economists.

Moreover, the official title, 'The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel,' sets economics apart from the original scientific disciplines recognized by Nobel: physics, chemistry, and medicine. Compared to these natural sciences, economics clearly stands out as a social science.

Lastly, and at the risk of becoming unpopular among my peers, even economists regularly debate whether certain laureates truly deserve the honor. Within our field, we too often lose ourselves in tribal disputes – between subdisciplines like theory versus empirics, or micro versus macro. Worse still, ideological divisions often underpin these internal conflicts. Recent research by Zubin Jelveh, Bruce Kogut, and Suresh Naidu (2024) empirically confirms that ideological biases strongly influence economic findings. If even economists themselves can't agree on what constitutes scientific excellence, wouldn't we be better off scrapping the Nobel Prize in Economics altogether?

This is precisely the argument Wouter Rykbosch articulated in De Standaard on October 16, 2024, responding to the award given to Daron Acemoglu, Simon Johnson, and James

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Robinson (AJR) for their studies on institutions and economic development. Like many, Rykbosch and I agree AJR's work is both impressive and influential, addressing perhaps the most crucial economic question: what determines whether a country develops, lifting its people out of poverty and ensuring decent living standards? After decades of theorizing about economic growth, economists have broadly reached a consensus: long-term economic growth isn't primarily driven by classical economic variables like capital investment or resource efficiency, but rather by the political and social institutions shaping society. This consensus is in large part thanks to AJR's work.

According to AJR, sustainable growth hinges on 'inclusive' institutions – institutions that protect property rights and enable broad participation in political decision-making – as opposed to 'extractive' institutions, which benefit only a narrow elite of dictators, dynasties, or oligarchs. This perspective is particularly resonant in an era when Western democracies are being actively undermined by a particularly select elite, namely oligarchs of Russian or American origin.

AJR's work absolutely has its place within the economics canon. Yet legitimate scientific criticisms can be raised about AJR's selection as Nobel laureates. First, Rykbosch notes that their theory struggles to explain China's recent growth. China notoriously lacks democratic institutions. Nevertheless, its economy has undergone unprecedented growth over recent decades, delivering one of the most remarkable poverty reductions in history. Whether this truly undermines AJR's framework remains debatable: AJR's theory considers sustainable growth in the very long term, whereas China's economic miracle is comparatively recent. Whether autocratic regimes can also guarantee a prosperous society in the long term remains to be seen.

In my view, however, AJR's more significant shortcoming lies in the empirical foundations of their work. As famously noted in the film Oppenheimer, "Theory will only take you so far." Without solid empirical support, the significance of a theory remains limited. To grasp AJR's empirical shortcomings, we must first consider the "credibility revolution" that has reshaped economics.

The Credibility Revolution

Four decades ago, economist Ed Leamer provocatively argued, "Let's Take the Con Out of Econometrics," pointing out that economic analyses were frequently dismissed because researchers selectively reported results fitting their biases. The credibility revolution countered this by emphasizing stricter empirical standards. Let the data speak instead of the researcher's bias. Pioneers like Nobel laureate David Card and Alan Krueger drew inspiration from medical science, championing randomized controlled trials (RCTs) as the ideal standard for establishing causality.

Of course, many economic issues cannot be studied using RCTs. If we want to study the impact of minimum wages on the American labor market, for example, it's unrealistic for the U.S. government to assign this policy measure by lottery to half of the fifty states. Such constraints are central to all social sciences. To overcome these, economists have developed a solid arsenal of quasi-experimental techniques. The core approach remains the same as in an RCT: making the cleanest possible comparison between a control group and an intervention group, thereby estimating the causal impact of a (policy) intervention. Only now, the division between control and intervention groups is no longer made by the researcher, but by external circumstances. The challenge for the researcher then consists of finding circumstances where the division between the two groups came about "as good as randomly." When New Jersey raised the minimum wage in 1992, for example, Card and Krueger compared fast-food restaurants in that state with similar restaurants across the border in Pennsylvania. While researchers can never definitively prove that the comparison in this kind of quasi-experiment is valid, valuable tests exist to corroborate that validity. In the case of fast-food restaurants, one can, for instance, precisely compare the behavior of the two groups of restaurants in the period before the intervention takes place.

AJR's Empirical Limitations

Here lies an important limitation in AJR's analysis: the empirics in their most influential and most cited study (2001) do not meet the high standards we've come to expect since the credibility revolution (see also Smith, 15/10/24). AJR's analysis rests on an intriguing hypothesis: that the initial, historical mortality of European settler determined whether inclusive or extractive institutions were established in new colonies. Places with high settler mortality would primarily be exploited, while regions with low mortality enabled more sustainable colonization, including Western, inclusive institutions. In turn, this initial institutional choice still influences current living standards in former colonies today.

According to AJR, settler mortality satisfies the "exclusion restriction": it's an exogenous variable that influences economic development only through institutions and not through other mechanisms. Based on the exclusion restriction, AJR then use the correlation of settler mortality with social institutions to obtain statistical variation in these institutions that is as good as random. This variation, in turn, allows them to estimate the causal impact of institutions on economic development. Without satisfying the exclusion restriction, such an estimate is impossible.

Critically, lower mortality didn't just lead to better institutions, it also made a colony more attractive to live in. This quality of life allowed a colony to attract more and better-educated colonists, as demonstrated by Glaeser and colleagues (2004), offering an alternative explanation for economic development—a possibility that AJR cannot exclude. This violates

the exclusion restriction in their empirical strategy, leaving the causal impact of inclusive institutions uncertain. The Nobel Committee acknowledges this empirical shortcoming but argues that the correlations documented by AJR are "strongly suggestive." Ever since the credibility revolution, a higher empirical standard is usually expected from Nobel Prize-winning work.

Against Relativism: Raising Standards

Rykbosch and others argue for abolishing the Nobel Prize in Economics due to our ideological disputes, methodological controversies, or empirical limitations when tackling ambitious research questions. I, on the other hand, propose making the exact opposite move. Instead of lowering our ambitions for economics because it's "merely" a social science, we should raise the bar precisely because social sciences address the most urgent questions of our time. Instead of further undermining the objectivity and credibility of social sciences, we can actually strengthen them thanks to the credibility revolution. Importantly, I don't regard scientific objectivity as an exclusive privilege of the exact sciences. Those "exact" sciences are, after all, nothing if not human. Instead, I conceive of objectivity as a pragmatic loyalty to rigorous standards and transparent methods to arrive at better, workable insights through a collective research process.

My optimism in this regard is justified by other recent Nobel Prizes in economics. In 2019, Abhijit Banerjee, Esther Duflo, and Michael Kremer received the prize for their experimental approach to global poverty alleviation. These researchers apply RCTs, the gold standard of the credibility revolution, to analyze which methods work best to lift people out of extreme poverty. This is solid research with immediate, positive practical implications. For instance, Kremer and Edward Miguel discovered that deworming tablets are one of the most cost-effective ways to fight poverty, particularly in tropical countries with high prevalence of parasitic worms. For less than half a euro per child, this treatment substantially improves health and later labor productivity. This insight led to tangible results: the NGO Deworm the World treated more than 195 million children worldwide in 2023 alone.

Alfred Nobel initially conceived the Nobel Prizes to recognize those who had recently contributed most to humanity's welfare. The prize for Banerjee, Duflo, and Kremer is therefore a clear illustration of how economists can perfectly lay claim to a Nobel Prize. Of course, there are many other examples. As the vanguard of the credibility revolution, the aforementioned David Card won in 2021 together with Joshua Angrist and Guido Imbens. They elevated quasi-experimental methodology to a drastically higher level (Angrist & Imbens) or applied it to clarify the often surprising impact of minimum wages or migration on the labor market (Card). The 2023 laureate was Claudia Goldin, who used transparent

analyses to illuminate the underlying factors of the wage gap between men and women. These are examples of solid empirical work on crucial societal themes.

It's not only empirical researchers who rightfully deserve the Economics Nobel Prize. Theorists also offer objective and socially relevant insights. In 2022, Douglas Diamond and Philip Dybvig were honored for their modeling of bank runs. Their theory shows that banks are vulnerable to self-fulfilling bank runs because they convert short-term savings into long-term investments, allowing arbitrary panic among savers to cause a liquidity crisis. Their insights were crucial in combating the 2008 financial crisis and in formulating regulations to prevent future crises.

Consider also George Akerlof's theory of "adverse selection," where asymmetric information can lead to market disintegration, earning him the Nobel Prize in 2001. In the health insurance market, for example, patients know more about their expected healthcare needs than insurers, leading healthier patients to be unwilling to insure themselves at the average insurance cost. Through this adverse selection, private health insurance ultimately becomes barely affordable for the less healthy patients who do want to insure themselves. This insight is central to designing government intervention in health insurance.

The True Justification

The motivation for an Economics Nobel Prize therefore doesn't lie in the argument that economics is or isn't as "exact" as physics or chemistry—whatever that might mean—or because it expresses its analyses in mathematical terms. No, mathematical argumentation is merely a tool toward objectivity, transparency, and internal coherence. Economic science deserves a Nobel Prize because it's capable of providing socially relevant insights in an objective manner. For empirical work, this objectivity lies in loyalty to and promotion of the values of the credibility revolution. For microeconomic theoretical work, we can require that it be groundbreaking, internally coherent, and ultimately empirically validated. Akerlof's theory of adverse selection is a clear example here.

For macroeconomic work, it's more difficult to determine strict criteria of objectivity, because the goal of macroeconomics is often to analyze situations where the microeconometrics of the credibility revolution have limited applicability. Yet this discipline also makes progress by requiring that at least the microeconomic predictions of macroeconomic models match empirical evidence. This approach isn't foolproof, because a macroeconomic model necessarily abstracts from much of the underlying microeconomic patterns. Otherwise, the model becomes needlessly complex or even incomprehensible, which should be avoided because models serve to clarify and facilitate transparent communication. My own preference is to develop fairly parsimonious models of the macro-economy, where the values for the few critical parameters are soundly

grounded in the data. Other researchers emphasize additional realism at the micro-level at the cost of additional complexity. Our field has room for both approaches and the future will tell which one holds more promise.

As mentioned above, economic analyses are regularly ideologically motivated. This shouldn't surprise us because the political relevance of economic analyses is often substantial, and economists, like everyone else, sometimes look at reality through a politically colored lens. From this perspective, however, the Nobel Prize is an instrument to encourage objectivity and social relevance. The same applies to medical science, where not all research meets the criteria of the credibility revolution, but the best research is absolutely Nobel Prize-worthy.

Shouldn't other social sciences also be eligible for a Nobel Prize, since they too offer objective and relevant knowledge? Together with Paul De Grauwe, in *De Morgen* on October 21, 2024, I wholeheartedly agree. In times of social polarization, social science itself should set a good example in building bridges and providing concrete solutions and insights. Like AJR, I advocate for an inclusive society, and to protect it, we must promote insights from all social sciences. But this public promotion only succeeds when the credibility of those insights remains the first priority.

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