ECON JOURNAL WATCH
Scholarly Comments on Academic Economics

John F. Nash Jr. [Ideological Profiles of the Economics Laureates]

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Econ Journal Watch 10(3), September 2013: 520-525

Abstract

John F. Nash Jr. is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called "The Ideological Migration of the Economics Laureates," which fills the September 2013 issue of *Econ Journal Watch*.

Keywords

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

JEL classification

A11, A13, B2, B3

Link to this document

http://econjwatch.org/file_download/755/NashIPEL.pdf

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John F. Nash Jr.

by Daniel B. Klein and Ryan Daza

John Nash (1928–), was born in Bluefield, West Virginia. Nash's father was an electrical engineer and served in France during WWI. His mother studied at West Virginia University and was a schoolteacher (Nasar 1999, 26-27). His mother, recognizing Nash's awkwardness and brilliance, pushed him hard both socially and academically, making his education "a principal focus of her considerable energy" (ibid., 31, 33). Bluefield had the "highest per capita income in the state during the [19]30's and 40's and was home to a handful of millionaires" (Nasar 1994). Nash said of Bluefield: "[It] was not a community of scholars or of high technology. It was a center of businessmen, lawyers, etc. that owed its existence to the railroad and the rich nearby coal fields of West Virginia and western Virginia. So, from the intellectual viewpoint, it offered the sort of challenge that one had to learn from the world's knowledge rather than from the knowledge of the immediate community" (Nash 1995).

Nash began studying mathematics in high school. Nash states that he was not the "best student" and was voted by his peers as the "most original" student (Nash 2002a). On originality, he states: "So there is something of that in my approach to mathematics. I have tended to think that the thing to do is to get away from what other people are doing and not to follow directly in anyone's recent work. I did that in game theory also. I brought in some alternative ideas, which, to some extent, are competitive" (ibid.). During his last year of high school he took supplementary mathematics courses at the Bluefield College (Nash 1995). On learning during his childhood, Nash states:

> I did have an appreciation of maths and science as a child, and even at elementary school I would like to do more in mathematics than the other students were doing in one way or another. So I did have that at an early stage. Like maybe almost comparable to Mozart in music. (Nash 2004)

On his early formal education, Nash stated: "I…did electrical and chemistry experiments at that time. At first, when asked in school to prepare an essay about my career, I prepared one about a career as an electrical engineer like my father. Later, when I actually entered Carnegie Tech. in Pittsburgh I entered as a student with the major of chemical engineering" (Nash 1995). Nash found chemistry unchallenging and, with encouragement from the Carnegie faculty, decided to switch majors and study mathematics (ibid.).

Nash took one elective course in international economics taught by Bert Hoselitz. Nash reflected: "[A]s a result of that exposure to economic ideas and problems, [I] arrived at the idea that led to the paper 'The Bargaining Problem' which was later published in [*Econometrica*]. And it was this idea which in turn, when I was a graduate student at Princeton, led to my interest in the game theory studies there which had been stimulated by the work of von Neumann and Morgenstern" (Nash 1995). Nash (2004) says that Hoselitz, an "Austrian economist" of a "different school than typical American or British," was influential in his development.

After graduating from Carnegie and serving there as an instructor in 1950, as a consultant at RAND (Nasar 1994), and as an instructor one year at Princeton University, Nash took an instructor position in mathematics at MIT in 1951 and remained there until he resigned in 1959 when his health deteriorated (Nash 1995). At MIT, Nash met his future wife Alicia when she took his course in advanced calculus (Nash 2002b). After conquering his health issues, Nash says he "began to intellectually reject some of the delusionally influenced lines of thinking which had been characteristic of my orientation. This began, most recognizably, with the rejection of politically-oriented thinking as essentially a hopeless waste of intellectual effort" (Nash 1995). Nash's biographer Sylvia Nasar (1994) noted that when Nash "got tired of mathematicians, he would wander over to the economics department [at MIT] to talk to Mr. Solow and another Nobel laureate, Paul Samuelson."

Nash won the Nobel Prize in economics in 1994 with John Harsanyi and Reinhard Selten for "pioneering analysis of equilibria in the theory of non-cooperative games." Nash was credited with introducing "the distinction between cooperative games, in which binding agreements can be made, and non-co-operative games, where binding agreements are not feasible. Nash developed an equilibrium concept for non-cooperative games that later came to be called Nash equilibrium" (Royal Swedish Academy of Sciences 1994).

Throughout his career Nash has said very little about policy and politics, but one institution that he has treated is money. In 2002, Nash wrote an article, "Ideal Money," that Charlie Holt described as a "monetary arrangement with a fresh slate based on indices of producer goods prices" (Holt 2002, 2). In it Nash criticizes the "Keynesian psychology in relation to the history of the influence of Keynesians on the practical characteristics of national currencies" (Nash 2002c, 4). He wrote:

> I wish to present the argument that various interests and groups, notably including Keynesian economists, have sold to the public as a quasi doctrine that teaches, in effect, that "less is more" or that (in other words) "bad money is better than good money." Here we may recall the classic ancient economics saying called *Gresham's law*: "The bad money drives out the good." This saying of Gresham's is of interest here mainly because it illustrated the old, or "classical," concept of *bad money*, which is not in line with the thinking of Keynesian economists. (Nash 2002c, 4)

> [L]et us define *Keynesian* to be descriptive of a school of thought that originated at the time of the devaluations of the pound and the dollar in the early 1930s. Then, more specifically, a Keynesian would favor the existence of a manipulative state establishment of central bank and treasury that would continuously seek to achieve "economic welfare" objectives with comparatively little regard for the long-term reputation of the national currency and its associated effects on the reputation of financial enterprises domestic to the state. And indeed, a very famous saying of Keynes's was "…in the long run we will be dead…" (ibid., 5)

> In 1931, [the gold] standard finally failed to be supported any longer, and this happened at a time when the London government had shifted to the left politically and at a time of global economic stresses. (ibid., 5-6)

> A *debt pardoner* is an agency or authority that can pardon the "sins" of the overindebted or of those who otherwise would go bankrupt. … National pardoners will become ineffective within the area of the euro unless they secede from the euro currency bloc. Instead, pardoning will depend on the actions of a sort of "Holy Roman Emperor" in Frankfurt, which would be able to generally pardon all of the debt-sinners of the euro-money bloc. (ibid., 6)

> [T]he standardization of the value of the international money unit, would remove the political roles of the "grand pardoners," the state authorities that can forgive debts of debtors, including, in particular, those of themselves. (The national debt of a state can, in principle, be trivialized by a sufficient amount of inflation.) (ibid., 9)

> If such an objective and nonpolitical standard were used in the Frankfurt of a euro-money system, then there would not be a "Holy Roman Emperor" (although of a collective structure) with the power to pardon or not pardon the debt-sins of all Europeans debtors (of the zone) in general. Thus, there would be nothing to argue about, such as whether or not those most desirous of Keynesian pardoning should be favored with a general pardoning of past debts by the fiat of inflation. (ibid., 9)

> [T]he fundamental principle remains that if a political basis existed for changes in a standard index, it is not unlikely that a form of corruption would appear. (ibid., 10)

At the end of the article, Nash explains:

> The above text originally derives from my outline for the lectures given at various specific locations of the European School of Economics in Italy in October 1997. Subsequent to that time, after consulting with some of the economics faculty at Princeton, I learned of the work and publications of Friedrich von Hayek. I must say that my thinking is apparently quite parallel to his thinking with regard to money and particularly with regard to the nontypical viewpoint regarding the

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> function of the authorities that in recent times have been the sources of currencies (earlier coinage). (ibid., 11)

In the following years, Nash frequently delivered a lecture titled "Ideal Money and Asymptotically Ideal Money" (see Nash 2003) building on the earlier article. A report on a lecture by Nash at Brown University contains this account of his comments on the idea of a global currency:

> Nash responded with caution to the suggestion from an audience member that a system of currencies approaching perfect stability would ultimately produce a system with only one world currency.
>
> "There's nothing wrong with it," Nash said. But he added, "In practice, I'm a little distrustful of the politicians at the level of the United Nations and elsewhere," who would be in charge of administering a world currency. (Zuckerman 2005)

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Douglass C. North

by Daniel B. Klein and Ryan Daza

Douglass C. North (1920–) was born in Cambridge, Massachusetts. His father, a WWI veteran, was a manager at an insurance company. The nature of his father's job made moving around necessary. As a result, North went to schools in Canada, Switzerland, Connecticut, and New York City during the Depression (North 1994). North reflected on his early life:

> Our family life was certainly not intellectual. My father had not even completed high school when he started as an office boy working for the Metropolitan Life Insurance Company, and I am not sure that my mother completed high school. Nonetheless, she was an exciting person, intelligent, intellectually curious, and she played an important part in my intellectual development. (North 1994)

North says of his college experience at the University of California at Berkeley: "While I was there my life was completely changed by my becoming a Marxist" (North 1995, 252). He continues: "Marxism was attractive because it appeared to provide answers to the pressing questions of the time, including the Great Depression that we were in—answers missing from the pre-Keynesian economics that I was taught in 1939–1940" (ibid.). In an interview conducted by Karen Horn, North remarks: "I drifted into being a Marxist. Not a Communist, a Marxist. That's a big difference" (North 2009, 160). North continues: "I read lots of Marx. That was a big influence on my life, and it still is. I'm not a Marxist any more, but still, he had an enormous impact. Anyway, I went through school and thus became a leader in left-wing activities. Then, World War II came along" (ibid.).

In 1942, upon graduating and because of his "strong feeling that I did not want to kill anybody" (North 1994), North joined the Merchant Marine, serving as a navigator. He reflected: "What the war did was give me the opportunity of three years of continuous reading, and it was in the course of reading that I became convinced that I should become an economist" (ibid.).

After the war, North returned to Berkeley to pursue a Ph.D. in economics. About those years, North remarks:

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