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By Konstantin Sonin

In mid-October, there is only one suitable theme for a column on economics -- the Nobel Memorial Prize in Economic Science. Last week, the Nobel committee conferred the award on economists Leonid Hurwicz, Roger Myerson and Eric Maskin for having "laid the foundations of mechanism design theory." The economists' research, which has played a central role in contemporary economics and political science, has helped explain mechanisms and decision-making procedures involved in economic transactions.

This whole area of research originated as a study of centrally planned economies, a hot topic for economists five decades ago. Now there is little connection between this starting point and the modern theories of advanced microeconomics and incentives. Nonetheless, this gives us an opportunity to apply lessons from their findings to today's economy. But first, a short moral story.

I once had dinner with a prominent macroeconomist. He was a former director of the International Monetary Fund and currently works as a professor at a prestigious university. While giving an honorary lecture at a leading Moscow university, he asked whether there was anyone present who was involved in developing Russia's macroeconomic policy -- perhaps the finance minister, the chairman of the Central Bank or, at the very least, a deputy minister or deputy chairman. It was a rhetorical question, of course.

"That's strange," the distinguished professor said. "I was recently paid a lot of money to speak in Abu Dhabi before a group of finance ministers of leading oil exporting countries. They listened with their mouths agape. Yet my presentation today is the same as the one I gave in the Emirates. I have no secret knowledge. My data, methods and conclusions are available to anyone. If what I have to say is so valuable that government ministers and investors are willing to fly to the Emirates and pay top dollar to hear it, why don't Russian ministers and investors want to hear it for free?"

What does this have to do with the 2007 Nobel laureates in economics? Hurwicz is 90 years old and hasn't been traveling the world lecture circuit for years. But Myerson and Maskin, the other two laureates, both spoke in Moscow. Myerson gave three lectures at the Russian Economic School in late 2003, and Maskin spoke at an April conference held at the Higher School of Economics. Myerson spoke on how the government should be structured, but don't worry -- it was only theory, nothing concrete. And Maskin lectured on international trade. They received the Nobel Memorial Prize for their earlier work, but maybe it would have been worth it for government economists to listen to the laureates, who have attracted the attention of leading economists from all over the world.

This is a good time, however, to take a look at the pioneering work of the Nobel trio. Fifty years ago, Hurwicz began studying the organization of mechanisms. In capitalist economies, prices serve as a source of information, but in socialist economies, such sources do not exist. But information about consumer preferences and purchasing power is absolutely necessary. Thus, the sheer complexity of theoretical mechanisms put forward by Myerson and Maskin might explain why the Soviet Union's experiment with building a planned economy ended in economic collapse in the late 1980s. The task of creating a centralized system that motivates people and provides for their needs was feasible only in theory. In practice, it was a failure.

Now, as the country's economy is rapidly becoming more centralized and as the old problems of information transmission and proper incentives once again emerge, it would make sense to invite Maskin and Myerson to Moscow again. Only this time we would have to pay them much more. Otherwise, our top decision makers will not bother to listen.

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