
The Nobel Award



James Tobin at Yale in 1949.

Yale's little cabal of systems-analysis frauds

by Richard Freeman

We will try to illustrate the basic point with the help of computer simulations of a fictitious economy of our own construction. . . . We fully realize, of course, that this procedure cannot tell us anything about the real world. You can't get something for nothing. . . .

—James Tobin, *"Econometric Models: Their Problems and Usefulness—Pitfalls in Financial Model Building,"* 1968

The Nobel Prize in Economics awarded to James Tobin Oct. 13 by the Swedish Academy of Science is a hoax. The Nobel Prize was not given for any scientific achievement in economics, nor has it been since the prize was instituted in 1969.

The Nobel Prize in Economics was created for the benefit of members of an obscure institution set up by Venetian and British oligarchies in the 1930s to push systems analysis, the mathematical hoax used to "prove" the impossibility of economic growth. That institution, now located at Yale University and known as the Cowles Foundation, exercises its influence to have the Nobel Prize awarded to its members, its directors, and its creators.

James Tobin, the Nobel Laureate designate for 1981, was the head of the Cowles Foundation in the years 1955-61 and sits on the executive committee of the Foundation today. Lawrence Klein, of the Wharton School in Pennsylvania, the winner of the Nobel Prize in 1980, was at the Cowles Foundation, from 1944 until 1949, when it was located at the University of Chicago. Ragnar Frisch of Norway, and Jan Tinbergen of The Netherlands, the co-winners, in 1969, of the first Prize awarded for Economics, were founders of the European network that set up the Cowles Foundation. The pair came to the U.S. and in 1931 set up the Econometrics Society, sister organization of the Cowles Foundation. Tjalling Koopmans, the co-recipient of the Nobel Prize in 1975, was the director of the Cowles Foundation from 1944 through 1955, when he moved it from the University of Chicago to Yale University. Kenneth Arrow, one of the co-authors of the "Triple Revolution" document written in 1963 to launch the "post-industrial revolution," and who was at the Cowles Foundation from 1947 through 1950, was the co-recipient of the Prize in 1972. And Herbert Simon, who is not even an economist but a psychologist specializing in so-called industrial organization, a member of the Cowles Foundation from 1947 through 1951, got his Nobel in 1978.

Lest anyone think that the Cowles Foundation is a mass-membership body to have produced so many Nobel Prize winners, it has no more than 16 active members, all faculty at Yale University.

Perhaps one of the best starting places for examining the Nobel hoax is Yale University. Economist Robert Triffin, who was at Yale from 1951 through 1980, has been employed for most of his life by the Belgian Royal Household. Next, there is Henry Wallich, the son of a prominent German Jewish banking family, who spent the years 1933-35 in Argentina, Uruguay and Chile, haunts of Nazi investment in those years. Wallich, who is tied to the Swiss oligarchy and the Swiss gnomes, (and left the Yale faculty in 1974 to join the Board of Governors of the Federal Reserve System) was brought over from Harvard in 1950-51, along with Triffin and James Tobin.

Perhaps most important is Irving Fisher, who is sometimes called the "great American economist of the 20th century," despite the fact that he predicted permanent financial stability just before the 1929 crash. Fisher, the leading figure in the Yale Economics Department from the 1900s through the early 1930s, is sometimes considered the father of "modern quantity theory economics" and also the father of equilibrium theory, or systems analysis without its computerized garb.

History of systems analysis

The quotation from James Tobin which forms the epigraph to this article is probably the most concise statement of the theory of systems analysis or linear programming. Derived from a project to artificially "unify the sciences," systems analysis applies quantitative approaches to obscure the fundamental process of economics.

If the understanding of real economics is obscured, then economic growth can be aborted.

To this effect, the various founders of systems analysis attempted to take modeling techniques from a fixed, closed system of mathematical equations and impose them onto economics. The immediate predecessors of this project in the 20th century are New Dark Ages advocates Bertrand Russell and Alfred North Whitehead, who published *Principia Mathematica* in 1903 to demonstrate that all knowledge could be reduced to formal logical axioms and logical procedures.

No formal logical system, even if outfitted with so-called *dynamic equations* that attempt to express change, can ever capture or explain the real movements of the physical world of the economy. The creation, transmission and assimilation of new technologies, represented in new discoveries in science, and applied to production processes to generate new growth in social surplus (absolute profit of the economy) is the real subject of economics. The only suitable mathematics to describe this process is the physical mathematics based on the work of Bernhard Riemann, which has otherwise been incorporated in the LaRouche-Riemann economic model presented in this magazine.

Systems analysis rejects the primacy of economic growth and technological change. It works as long as the "system" stays the same. In fact, "systems analysis" was founded upon "resource allocation," that is, using price increases to restrict the allocation and use of so-called "limited resources."

In the introduction to a book commissioned by the Cowles Commission on systems analysis, Tjalling Koopmans explained the economic model of one of the founders of systems analysis, the inventor of game-theory John von Neumann. "Von Neumann (1937, 1945) generalized this model of production in several directions," stated Koopmans. He introduced alternative methods of producing given commodities singly or jointly, each method again involving *fixed technological coefficients* (ratios between inputs and outputs). Thus, he derived not only which goods are free but also which productive activities (methods) go unused. Also, a commodity could appear simultaneously as input of one activity and as output of another. This circularity idea was extended even to goods demanded by consumers, through the somewhat forced concept of an activity producing labor by the absorption of consumption goods in fixed proportions. *The model thus became a closed one, with no inflow of primary factors from outside or outflow of final products out of the system considered.* Any non-consumed 'surplus' was assumed to be used for capital formation to obtain a continuous proportional expansion of all productive activities *under unchanging technology.* Von Neumann's model is therefore dynamic in the limited sense [emphasis added]."

All attempts to introduce "dynamism" into the fixed-systems constraints elaborated by von Neumann, which project has fervidly occupied the systems-analysis group for the last 50 years, has ended, for lawful reasons, in utter failure.

This approach was picked up and further elaborated by the Cambridge School of Economics in England, under Nicholas Kaldor in the 1930s. At the same time, according to Koopmans in a telephone interview with *EIR*, "parallel work was going on at Oxford University, where a systems-operations research group was set up by Ragnar Frisch. Frisch set up an Econometric Society in England, working with people such as Jan Tinbergen and Jacob Marschak, an influential figure who was born in Russia, and taught in Hitler's Germany and at Oxford, before going to the United States. Working with people such as the German statistician Borkiewicz, and von Neumann, these people brought together all the currents of ideas in this field." These included the influence directly of Russell, Ludwig Wittgenstein, and physicist Ernst Mach, Koopmans said.

It was this core group at Oxford and Cambridge that turned their systems analysis into the Operations Research Group and set up the U.S. Strategic Bombing

Survey in the 1940s. These ideas were applied in the terror bombings of Germany and Japan. Systems analysis had “taught” which chokepoints in an economy could be destroyed through bombing, an approach it still uses, with other means.

“We were a very tiny percent of the economics profession in the 1930s,” stated Koopmans. “But now with these seven Nobel Prizes, you can see what amount of influence we have today. Once systems analysis was demonstrated in economics, it could also be used in other fields.”

Herbert Scarf, the chairman of the Cowles Foundation today, and a member of the Yale University faculty, told *EIR* Oct. 20, “What is remarkable is the influence that systems analysis at the Cowles Foundation and at the RAND Corporation had on American economics and all areas of thought. Someone should look into it.” Scarf, who was educated at Princeton, where John von Neumann had been located after the war, went to RAND Corporation in 1954 and spent several years there before moving on to the Cowles Foundation. “Do you know who was in the *economics department* at RAND? It is really impressive, because they’ve influenced defense analysis and other fields. There was Albert Wohlstetter, the military expert; as well as Herman Kahn, now of the Hudson Institute; Henry Rowen [now director of Policy Planning of the U.S. Central Intelligence Agency—ed.]; Daniel Ellsberg; William Gorham, the current head of the Urban Institute; Alain Entoven, who was one of the whiz kids for McNamara at the Defense Department in the 1960s. You know who was also at RAND—Paul Samuelson, as a consultant; he is one of the people who has developed systems analysis.”

In 1931-32, Ragnar Frisch of the Econometric Society of England and the Oxford Economics Department came to the United States to meet with Irving Fisher and Alfred Cowles, a stock-market investor and adviser who was the scion of a Midwest newspaper fortune (collaterally related to the Cowles family of Minneapolis). Out of these meetings came the decision for Fisher to clone the Econometric Society in the United States and for Cowles to create the Cowles Commission for Economic Research in Colorado Springs, Colorado, where he was based. The Cowles Commission moved to the University of Chicago in 1939, and then moved to Yale in 1955, changing its name to the Cowles Foundation.

Mass brainwashing

The forced march of systems analysis from a “small minority of the economics profession in the 1930s” to its dominant commanding influence today, has an application outside the immediate focus of zero-growth economic policy.

Beginning with the British economic hoaxsters William Stanley Jevons and Alfred Marshall, much of economics has been formulated in the 20th century in terms of supply-demand relationships, where the intersection of the two curves sets the economic price of goods in allegedly competitive situations. Systems analysis, by simultaneously claiming to predict accurate pricing relationships, and then packaging this through the appeal of computers, has created a “wired society.”

The economics markets are now controlled top-down by people using systems analysis, who rig the markets to the benefit of those who can command control over raw materials, speculative outlets, and so forth. They weed out many of the independent forces of finance and production who actually make economic growth happen.

At the same time, by making systems analysis the dominant standard for business administration—called strategic planning systems in industrial lingo—and for the behavior of all the participants in the markets, the top financial forces in Europe can induce recessions and panics. Watch how people will sell stocks and bonds in panicked stampedes when they are told that, “the monetary quantities are up,” or the “oil quantities are down.”

The key is the purpose to which systems analysis has been put. Kenneth Arrow, Nobel Prize winner for economics in 1972, introduced in 1963 the thesis of the “Triple Revolution,” which called for an end to industrial development. Jan Tinbergen, winner of the Nobel Economics Prize in 1969, wrote the RIO report in 1976-77, which stated that limited resources and overpopulation would cause disease, famine and war in the Third World. Lawrence Klein, the Nobel Economics Prize winner for 1980, has drawn up econometric models based on systems analysis and sold them to Mexico and other developing-sector countries in an attempt to wreck their economies. All of these are products of the Cowles Foundation.

Tjalling Koopmans told *EIR* Oct. 20, “The people at the Club of Rome, like Aurelio Peccei, have a lot of good will and drive. But there were troubles with their economic model. Now a professional economist could gloat and say, their model is bad, so their ideas are no good. But instead, it was possible for systems analysis to put these ideas on a rigorous footing, and it was doing that that led to the creation of the International Institute for Applied Systems Analysis [IIASA] in late 1972. Now the Club of Rome ideas on scarce resources and population can be discussed more rigorously.” He might have added that IIASA is the site for “rigorous discussion” of systems analysis with leading Soviet strata, for example, Dzhermen Gvishiani, son-in-law of the late Alexei Kosygin. They would like to wreck the Soviet economy, too.