

## Nobel economics prize given to insanity

by Richard Freeman

On Oct. 11, the Royal Swedish Academy awarded the 1994 Nobel Memorial Prize in Economic Science to three “pioneers in the field of game theory,” John Nash of Princeton University; John Harasanyi, who was born in Hungary and teaches at the University of California at Berkeley; and Reinhard Selten of the University of Bonn.

The criteria of the Swedish Academy in awarding the Economic Prize to various past recipients have been abysmal: In 1970, the Swedish Academy awarded the prize to Paul A. Samuelson, whose advocacy of “built-in stabilizers,” which automatically right a faltering economy, was ground into dust by the 1973-75 and 1978-79 global depressions. In 1976, the prize went to Milton Friedman, a morally insane person who, representing the Mont Pelerin Society, preaches that the monetized value of anything in the economy, not the power of man to reproduce himself at rising levels of cultural and material existence, is the worth of any economy. Friedman holds up drug-financial trading center Hongkong as the paradigm economy in the world. Last year, the Swedish Academy granted its prize to Robert Vogel, whose 1974 book, *Time on the Cross*, argues in defense of slavery. It purports to show through statistics, that brutal slave-based agriculture in America’s antebellum South, had a higher output per dollar invested than the agriculture of the free, technology-proud American farmer.

But even by this standard of lunacy, in 1994, the academy outdoes itself. It is granting its prize to systematizers of “game theory,” which is a demonstrable form of psychosis.

On Oct. 12, U.S. economist Lyndon H. LaRouche, Jr., responding to the announcement of the Nobel Prize for economics, observed, “The notorious perversity of the Swedish Royal Academy’s views on economics are attested by the fact, that excepting the case of Maurice Allais [1988], no economist has been awarded the Nobel Prize for economics

who has not either personally caused a major economic catastrophe for at least one nation, or concocted a theory in defense of such a ruinous delusion. Now, it has embraced the ‘game theory’ which supplies the doctrine responsible for the largest and most deadly speculative financial bubble in history, the ‘derivatives’ bubble. With this action, the Swedish Royal Academy has outdone itself: It has endorsed that particular, totally irrationalist notion which underlies the imminent disintegration of existing monetary and financial systems of this planet.” The doctrine of “game theory,” LaRouche said, is “clapper, no bell.”

### The murky figure of John Von Neumann

The proponents of game theory say that in poker and other games of chance, the fundamentals are at work. In awarding the 1994 prize, the Royal Swedish Academy announced, “Everyone knows that in these games, players have to think ahead to devise a strategy based on expected counter-moves. Such strategic interaction characterizes many economic situations, and game theory has therefore proved to be very useful in economic analysis.”

Behind the emergence of game theory is the work of mathematician John Von Neumann (1903-57). In 1944, he and co-author Oskar Morgenstern released the book, *Theory of Games and Economic Behavior*, which laid out the theory’s premises. Next week, *EIR* will publish the full story on the philosophic axioms behind “game theory.” But it is possible to present here a few of the more important points about the system, and its founder.

John Von Neumann was born and raised in Budapest, Hungary. He fraudulently inserted the noble “von” in front of his name. In 1921, Von Neumann went to the University of Goettingen in Germany, and came under the influence of Prof. David Hilbert (1862-1943). Hilbert had set a project to

reaxiomatize, i.e., formalize, all of mathematics, including formalizing the work of George Cantor on the transfinite. Von Neumann became the epigone of Hilbert on this destructive project, and in 1923, Von Neumann wrote a doctoral thesis, "The Axiomatization of Set Theory."

This work proved a disaster for science. Von Neumann did not understand Cantor's work. Being profoundly blocked, and terrified of his own mental processes, Von Neumann sought refuge from real creative scientific thinking. Hysterically, he elaborated a system of fake objectivity, in which the subjective inner process of creative thought was rigorously excluded. This inner process was the real starting point for the transfinite in Cantor's work. Von Neumann erected and repeatedly cited, as the authority for his scientific work, three of the most destructive figures in the history of mankind: Aristotle, Galileo Galilei, and Isaac Newton.

By the 1950s, an unbalanced Von Neumann could see little difference between the computer and the human mind. In his 1944 book, *Theory of Games*, Von Neumann rejects all real economic processes. He states, "In economics . . . it is of utmost importance to know how to stabilize employment, how to increase the national income, or how to distribute it adequately." Nonetheless, "Nobody can really answer these questions, and we need not concern ourselves with the pretension that there can be scientific answers at present."

Man is viewed as a Robinson Crusoe, a never-existing primary barter trader, but placed in a social setting. Man is viewed as an atomized bundle of savage wants, which can be satisfied through some "commodities." Von Neumann writes, man's "task is to combine and apply [commodities and wants] in such a fashion as to obtain a maximum resulting satisfaction." But everyone else wants to maximize his or her "satisfaction," he says, and although Von Neumann claims he knew and constructed other systems, he relies upon what he fundamentally discovered: "a zero-sum game." In the zero-sum game, for someone to gain something, someone else must lose. This is not economics.

This reductionist concept of man, and economics, is then worked out in the axiomatics of a mathematical optimization model. In a two-person model, the wants and commodity-needs of each person are represented by a "partial set of variables." But, each person must also take account of the other person's wants and actions. In a two-person system, there are two persons and two partial sets of variables, which together constitute all the variables in a system. Thus, there is a four-set matrix. Von Neumann's only real concern, is how to maximize each person's partial set of variables through a matrix model, the maximization of an n-body problem.

Every physicist knew that the hoax called Newtonian physics breaks down when it attempts to explain the aftermath trajectory of three or more bodies after near impact. Even Von Neumann knew this. Thus his attempt to first psychotically define each individual as an isolated, savage hard-ball and then to pretend to optimize a "combinatory" solution for the assumed conflicting interests of n-number of

bodies is an insane fraud.

The model for this alleged solution in Von Neumann's system is the linearized probability theory of games. Poker is chosen as an exemplar. To compete against a competitor, one has to know how to count cards and to bluff, especially when one has a losing hand. This is carried over to the financial world, which is viewed as a game, decorticated from the physical economy. In the deadly world of derivatives speculation, where a trader "optimizes" multiple piles of fictitious financial claims, through the practice of lying, bluffing, and bullying, and where he competes against others who are trying simultaneously to do the same thing, game theory reigns supreme. Super-fast, number-crunching computers are used.

The conceit of derivatives traders, taken from Von Neumann, is that if one's computer is big enough, a) one will have more information than, and be able to defeat, the next guy—everything becomes a product of "information theory"; and b) *one can attain complete knowledge* of all that happens in the market, which will allegedly enable one to spot, and to halt, the collapse of the derivatives market. Thus, the derivatives market will never collapse. This latter point, which is believed by the London financial elite, is refuted by Kurt Gödel's unassailable 1931 proof. Gödel showed that it is impossible for an axiomatic system to be both "complete" and "consistent" at the same time, which shattered Bertrand Russell's and Von Neumann's system.

Ironically and lawfully, one of the biographers of Von Neumann reports that Von Neumann, who had worked out a fool-proof, mathematical system for poker, and upon which his economics rests, lost often at poker. Von Neumann went certifiably mad before his death.

Also derived from "game theory" are conflict resolution, and the modeling for thermonuclear war.

## Game theory destroys the mind

But necessarily, any person who degrades his or her mind to the level of Aristotelian logical positivism necessary to be a "game theorist" will be, or will soon go, mad. The biography on the first of the trio of this year's Nobel laureates, John Nash, reports the following: "Mr. Nash went to the Massachusetts Institute of Technology as an instructor in 1951, later being promoted to associate professor. Struck down by mental illness in the late 1950s, he resigned from MIT, and since then has spent most of his years at Princeton. . . . For most of the last quarter-century, he has been associated with Princeton as a 'visiting research collaborator,' without formal obligations."

The sketch continues, "He is said to lead a quiet life in the community, nurtured by friends and associates on the faculty. In deference to his wish for privacy, no details of his family life have been made available." Thus, for the last quarter of a century, since his "breakthroughs" for which the Nobel Prize was awarded, Nash has been mentally dysfunctional. Madness runs in the "game theory" family.