

'OPEN LETTER', FROM MARTIN DUFWENBERG TO THE DEPARTMENT OF ECONOMICS AT STOCKHOLM UNIVERSITY, SENT OUT ON TUESDAY DEC 17, 2002:

OPEN LETTER to Hans Wijkander, our Head of Department, and actually to all of you my trusted colleagues:

On Wednesday the 11th of December one of this year's Nobel Memorial Prize laureates, Professor Vernon L. Smith, and some of his colleagues from George Mason University, visited our department. Matthew Lindquist deserves a lot of credit for inviting Professor Smith and his group, and for arranging a wonderful lunch and an exciting seminar. It was truly a day to remember.

The lunch was served in A 790, our new social room ('fikarummet'). I delivered a speech, which culminated in a proposal and a toast. The proposal concerns all of you, and this is why I now write this email.

I believe that the best way to introduce and motivate my proposal is to tell you about my speech. Therefore, I now recount what I said. It went as follows (after I had knocked on my glass with a knife):

"I would like to make a proposal and a toast. As a background, let me first state the following question for those of us who believe in a free society:

- What is the best support in economics for the claim that free markets are good?

Many economists, no doubt, would point to General Equilibrium Theory and the so-called First Welfare Theorem. However, I believe that there is reason to be skeptical. The First Welfare Theorem is a purely theoretical construct, with little obvious empirical validity.

Instead I would like to turn your attention to a classic piece of work from 1962, published in the *Journal of Political Economy* (vol. 70, pp. 111-137). I am talking about Vernon Smith's article "An Experimental Study of Competitive Market Behavior". There you have it, the strongest support in economics for the claim that free markets are good!

Unfortunately, this message tends to become obfuscated when this year's Nobel Prize is discussed. Most of the discussion concerns experimental methodology, which is of course important, or psychology, which is of course important too. However, the message that I have stressed here is often missed.

Against this background, I would like to praise your [=Prof. Smith's] dinner speech at the Nobel party in the Stockholm city hall, last night. Among other things you...

- paid tribute to Friedrich von Hayek
- said the most important discovery in the history of man is MARKETS
- pointed to counterproductive connections between envy and redistribution

I think that was really well done! I watched the television broadcast from the Nobel party; that's how I know about your dinner speech. I could see that many Swedish politicians were present at the dinner, and I believe it was very good for them to hear your message. You see, in the daytime these guys and gals debate whether to increase the Swedish marginal tax rate from the current 73 to 74 or 75 %, while in the nighttime they indulge at Nobel parties at the expense of the Nobel foundation.

So, this leads me to my proposal. Consider the following facts:

- The room we are having this lunch in [A 790] is a new social room at our department.
- Our department already has one other common room: A 700. That room has been given a name: PARETO.
- You are the first Nobel laureate to visit our new social room.
- Our new social room already has an invisible hand in it ['the one which picks up uncleaned dishes'; I pointed to the small note in a cabinet in our new social room which has precisely this message]. Thus, in a sense, the spirit of a famous Professor Smith is already present in the room: Adam Smith's spirit.

My conclusion is that it makes sense to let also your spirit be present in the room! My proposal is therefore that my department decides to name also our second common room, and that we name it after you (and Adam). I propose that A 790 will be named SMITH. I promise to bring this proposal to Hans Wijkander, the Head of our Department, and to all my other colleagues.

Finally, it is time for the toast: To the free market, and to Vernon Smith!"

[Footnote: When I made my proposal to name our social room (A 790) SMITH, Professor Smith remarked that since there were two Smith's involved, Adam & Vernon, perhaps the room should be named SMITH & SMITH. You may consider that as an alternative proposal for how to name A 790.]

I look forward to getting your reactions!

Martin Dufwenberg

HERE FOLLOWS THE RESPONSE I GOT FROM VERNON WHEN I PASSED THIS INFORMATION ON TO HIM:

Martin:

Thank you for your marvelous toast/proposal and for sending me a written copy of it. My toast at the banquet was a statement of my personal credo, and its connections with my research which has enabled me to discover new perspectives on the value and importance of free economic, social and political institutions.

Your toast brings to my attention that the audience contained many who may differ with us on my message. Although it was not intended as a political message, I hope with you that it might have had some modest influence.

I wish you the best in Arizona, and I want to thank you for your hospitality.

...Vernon....

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Vernon L. Smith

Interdisciplinary Center for Economic Science

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<http://www.ices-gmu.org>

<http://www.nobel.se/economics/laureates/2002/smith-award.html>

-----Original Message-----

From: md@ne.su.se [mailto:md@ne.su.se]

Sent: Tuesday, December 17, 2002 4:18 AM

To: vsmith2@gmu.edu

Subject: open letter

Dear Professor Smith,

It was very nice to see you last week. Following up on my little lunch speech, I sent out an *open letter* today. I hope you might be interested, so I paste a copy below. Best wishes,

Martin