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Oliver Hart – a gentleman scholar and teacher

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THE recently announced Nobel Prize for Economics, jointly awarded to Professors Oliver Hart and Bengt Holmström, is cause for celebration.

Their inestimable contribution to contract theory has greatly strengthened the intersection between law and economics, especially in the areas of policy framing and policy reform. In this short address, I wish to acknowledge Oliver Hart, whom I encountered at the LSE when I was but a callow Master's student.

Hart has transformed the way in which we build models, both in contractual theory and in the organisational dynamics of power allocation and decision making. The explanatory force of his Incomplete Contracts theory derives its strength from structural simplicity, much like the individual blocks in a Lego construction.

All non-essentials are stripped away and any assumptions, however plausible, are rigorously interrogated. This form of critical hygiene is one to which Hart's students are immensely indebted. Witness the number of international post-graduates who have learnt from him how to sweep aside subtle flaws in argumentation or to challenge premises that on second glance are found to be unsustainable.

In his 1993 Clarendon Lectures, given at Oxford University, Hart applied his theoretical model to property rights and to the financial structuring of firms, revealing how contractual parties are institutionally constrained and rationally bound, and how every contingency can be neither fully anticipated nor fully provided for.

“In reality,” avers Hart, “a great deal of contractual incompleteness is undoubtedly linked to the inability of parties not only to contract very carefully about the future, but also to think very carefully about the utility consequences of their actions.”

Hart reassures those who are not experts(as in case of co-writer) in the more arcane areas of economic theory that the key objective in economic analysis is to ensure analytical precision and the firm grasp of basic arguments.

In this regard, Hart recalls Ronald Coase, an early pioneer of contract theory and the 1991 recipient of the Nobel Prize in Economic Science for his work on the theory of the firm. Coase had been irked by the younger generation’s predilection for striking out in new directions, but Hart maintains that towering original thinkers ought to accept with grace those who break out of the methodological mould in a way that neither slays nor slavishly follows the master’s theories.

Coase himself, while sitting in the audience of one of Hart’s lectures and aware of the latter’s innovative theory, quipped that had he known as much mathematics as Hart evidently did, he would have been a chemist rather than an economist. Chemistry’s loss is economics’ gain. Hart’s work on contract theory has had a colossal impact on dizzyingly diverse areas of economics and law, including debt, bankruptcy, and even prison administration.

When asked how he feels about the wide-ranging influence of his work, Hart humbly confesses to being terrified by the thought that he may have got some aspects wrong.

His peers and those familiar with his work would dismiss such anxieties as sign of a humble scholar. They also testify to the fecundity of his model and applaud this long overdue recognition of a scholar gentleman and educator.

Note: Bennedsen is Professor at Insead and co-writer Philip Koh, a lawyer, was Fulbright Scholar under Oliver Hart in 1999 at Harvard.

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