

## IS ECONOMICS IRRELEVANT?

Is irrelevance a major problem with contemporary economics? Writing in the November issue of the *Economic Journal*, Professor **Paul Krugman** provides a simple reality check. The American Economic Association's John Bates Clark Medal is a highly coveted award; it is therefore an indicator of what the profession values. And because it must be given to an economist under 40, it reflects research undertaken fairly recently.

So what do we learn about the values of the profession - the sorts of work that command the highest rewards - by looking at, say, the last ten Clark Medalists? Here is the list: 1979, Michael Spence; 1981, Joseph Stiglitz; 1983, James Heckman; 1985, Jerry Hausman; 1987, Sanford Grossman; 1989, David Kreps; 1991, Krugman himself; 1993, Lawrence Summers; 1995, David Card; 1997, Kevin Murphy.

In short: two middlebrow theorists whose work on imperfect markets has had a major impact both on policy and on corporate strategy; two econometricians whose techniques are widely used in practical applications; two theorists who specialised in issues of information and uncertainty; a trade theorist who focused on increasing returns and imperfect competition; a macroeconomist with a strong empirical and policy bent; and two very empirically-oriented labour economists.

Not one of these economists has worked mainly on perfectly competitive markets, or is a free-market ideologue. And as far as relevance goes, notice that in their subsequent careers, some members of the group have found that businesses and governments are willing to pay large sums for work based on their earlier research; one became Chairman of the Council of Economic Advisers, while another is now a very powerful Deputy Treasury Secretary.

It may be said that while the very best economists may be free of the sins for which the profession is criticised, things are different once one goes down the scale. But take any of the fields in which one of the lucky 10 works, and try listing 5 or 10 other successful economists in the same area. How many of them are engaged in arcane algebra that has no relationship to reality? Some of them, like auction theorists or finance theorists, are indeed engaged in arcane algebra - but it turns out to be very relevant indeed.

Krugman has not done this exercise, but guesses that taking the 100 economists most cited in the Social Science Citation Index and summarising the nature of their work, it would turn out to be mostly focused either on real-world problems, or on techniques that other economists have found very useful in addressing real-world problems.

**Note for Editors:** Paul Krugman's article 'Two Cheers for Formalism' is published in the November 1998 issue of the *Economic Journal*. It forms part of a 'Controversy' on 'Formalism in Economics'. Krugman is at MIT in Cambridge, Mass.

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