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Economics and Economists: A European Perspective

By BRUNO S. FREY AND REINER EICHENBERGER*

This paper endeavors to explain the difference between America (the United States and Canada) and Western Europe with regard to academic institutions, academic activities (the criterion for success and the distribution of scholars' time among teaching, research, and political activities), and opinions proclaimed. Building on comparative institutional analysis, the fundamental explanation is taken to lie in the differences in market size.

I. Sizes and Types of Markets

America has one very large, uniform, and competitive academic market (call it "A-market"), whereas Europe consists of a substantial number of countries, each of which essentially forms an academically closed and highly regulated market (Richard Portes, 1987 pp. 1335–8). The American academic market is large enough to define its own criteria and obeys strong internal dynamics (see David Colander, 1989 p. 31). Because of its size, this market is (relatively) impersonal and provides a reliable indicator of an individual scholar's quality: his or her journal publications and citation record. In order to deal with the great number of writings, the professional journals take the capacity of authors to formalize the existing paradigm (neoclassics) as a low-cost screening procedure.

By contrast, European academic markets ("E-markets") are thin and incomplete; they can be protected from outside competition because they consist mainly of direct services, the movement of which can be easily prevented. While all governments are interested in regulating academic markets, the

resulting damage in quality entails lower cost to the government in the small European states than in America, because (i) there are fewer professors and universities (which partly are themselves interested in these regulations) to be organized and controlled, (ii) the various languages pose natural barriers to entry, and (iii) many regulations make it costly for academics and students (who are often allocated to universities by *numerus clausus*) to react to the reduction in quality by moving from one university to another. Accordingly, universities are publicly organized and the professors are public officials with life tenure in exchange for good conduct.

II. Incentives for Scholarly Activities

In a typical European country, the government intervention pursued induces economics professors to invest their human capital in specific knowledge of local economic problems and institutions. It furthermore allows academics to pursue their own interests more strongly (including leisure and gainful employment by consulting). However, the small market size forces the few economists at any particular university to be theoretically broad, as they have to cover a wide spectrum of courses. In their function as experts, professional economists must have an extensive knowledge of various fields and be well versed in local questions. European economic scholars thus have an incentive to be both theoretically broad and institutionally specialized. In contrast, for an American scholar, knowledge of specific institutional details is of little or no benefit in the continent-wide academic market. He or she can be distinguished among the large number of competitors only by performing economics at an abstract, non-institution-specific level (which is useful everywhere) and by specializing

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theoretically (i.e., going deeply into one particular field of theory). The market size determines indeed the extent of specialization.

The same holds for American graduate students: they are mobile and therefore not interested in learning local institutional details (which are of no use to them when taking up a teaching assignment elsewhere) but want to be top-ranked in a possibly minute theoretical speciality. The criterion for survival has very little to do with how well the real world is explained, but very much with how capable one is of formalizing and logically advancing the reigning paradigm, neoclassics; that is, technique is what matters (whether, according to Serge-Christophe Kolm [1988], an author is able to solve “classroom exercises” and “nice little games”). As a consequence, only 3 percent of young American economists perceive “having a thorough knowledge of the economy” to be “very important” for professional success, while 65 percent think “being smart in the sense of being good at problem solving” is important and 57 percent believe that “excellence in mathematics is very important” (see Arjo Klamer and Colander, 1990 p. 18). By contrast, European students aspiring to an academic career know that they will almost certainly stay in the same country, quite likely even at the same university, and hence they have an incentive to learn about local institutions, which in turn strengthens the incentives for teaching European academics to specialize in institutional knowledge.

III. “American Output” and “European Process”

The performance of economists in the A-market is straightforward and well defined. “A-output” is measured by the number of publications and citations in professional journals. This output corresponds to the reigning incentive system. All American high performers appear in the indexes of A-output as the market works and finds out who performs well: those who publish a lot. The fact that A-economists subject to A-incentives should perform particularly well

(better than their European counterparts) with respect to A-output is not surprising. Nevertheless, it causes serious concern among economists in Europe (see Portes, 1987). Clearly, the determination of who performs well depends on an a priori decision about which professional journals are considered and which are excluded (e.g., *Public Interest* or *Challenge*, and almost all journals not published in English).

In Europe too, the performance of an economist can be defined and measured so that it corresponds to the particular incentive system that obtains there. The indicator for this “E-output” is certainly not the number of publications or citations (i.e., it is not the same as for A-output). While E-output is not as a whole directly measurable because markets are thin and uninformative, one straightforward indicator is the political position achieved by an economics professor. Because of the elusiveness of E-output, the evaluation has to revert to the “E-process.” What makes a European economist “important” therefore also depends on the process he or she uses, reflected by several indicators: (a) the formal examinations passed (doctorate and, in several countries, the *Habilitation* and *Aggrégation*); (b) membership to a particular academic “school” (i.e., one’s scientific pedigree); (c) the hierarchical academic position reached (ordinarius, director of an institute); (d) the academic resources available (i.e., the number of assistants and the size of the institute); (e) academic honors received (e.g., the number of *doctores honoris causa* or *Festschriften*, the presidency of professional societies, decorations and titles); (f) membership in decision-making bodies such as grant-giving institutions and policy advisory boards; and (g) the position and influence of a professor’s students after they have left academia.

It is again not surprising that European economists perform well according to E-output and E-process. A comparison between American and European economists can be made by assuming that they show an equal basic capacity to perform in economics. They have the same trade-off be-

tween E-output and A-output, but they face different incentives (i.e., relative prices), which make them behave and perform correspondingly.

PROPOSITION 1: *American economists are more successful with respect to A-output.*

PROPOSITION 2: *European economists are more successful with respect to E-output and put more emphasis on the E-process.*

Proposition 1 is empirically well founded (see Frey and Werner Pommerehne, 1988). According to the number of citations in the *Social Science Citation Index* over the period 1972–1983, the United States and Canada provide 72 percent of all eminent living economists, and only 25 percent are Europeans. Other A-output indicators (see e.g., Portes, 1987) reveal a similarly massive American dominance.

For intrinsic reasons, empirical evidence on Proposition 2 is difficult to find. Consulting Blaug's *Who's Who* would be incorrect because it is based on A-output. However, consider the political positions achieved by economics professors as a part of E-output. In Europe, the top rank of a Prime Minister was, after World War II, for instance achieved by Raymond Barre in France, Ludwig Erhard in Germany, Kåre Willoch in Norway, António Salazar and Anibal Cavaco Silva in Portugal, Andreas Papandreu in Greece, and Harold Wilson in the United Kingdom. None of these high achievers according to E-output is even mentioned in Blaug's *Who's Who* (they are too rarely quoted). In Europe, economists ranking highly in terms of A-output have also often responded to the different incentives and have achieved high political rank. Among economists mentioned in Blaug's *Who's Who*, we find, among others, Luigi Einaudi (Italian president), Joseph Schumpeter and Eugen von Böhm-Bawerk (Austrian ministers of finance), Bertil Ohlin and Gunnar Myrdal (Swedish ministers), Hugh Dalton and Anthony Crosland (Chancellor of the Exchequer and Foreign Secretary, respectively, in the United Kingdom) and Oscar Lange (Deputy President

of Poland). The counterargument that there are more high political positions in Europe than in America only pinpoints the stronger incentives to excel in E-output.

Other evidence may be adduced in favor of Proposition 2. Consider for example the Thünen-Lecture which was established by the *Verein für Socialpolitik* which, in German-speaking countries, plays the same role as the AEA in America. This lecture was established "to invite a professional colleague of special distinction in economic science either for research achievements, or for paving the way to introduce economic insights into the political sphere" (Ernst Helmstädter, 1987 p. 3 [our translation]). Since its establishment in 1986, the speakers were Wilhelm Krelle, Norbert Klotten, Jürg Niehans, Herbert Giersch, Gottfried Bombach, and Karl Schiller. Only two of them are among the most often cited in Blaug's *Who's Who*, and even these two comply very well with the criteria for excellence according to E-output and E-process: Klotten as president of the Central Bank of a German Land and Giersch as president of the most important economics institute. This selection confirms that in German-speaking countries one may rank most highly without belonging to the most often quoted economists.

IV. American and European Opinions

Differences in incentives (relative prices) may not only determine the kind of output produced, but also the opinions revealed in surveys among economists. (The existing studies implicitly assume, on the other hand, that the answers are given according to basic preferences only.) We thus argue that there are "A-statements" which correspond well to "A-incentives" but are answered quite differently by European economists. In particular, the following "textbook" statements (as devised by James Kearl et al., 1979) are so designed that they will be highly approved in America (see Table 1).

Table 1 suggests indeed that American economists *ceteris paribus* tend to support Kearl's "textbook" statements to a signifi-

TABLE 1—SUPPORT FOR “TEXTBOOK” PROPOSITIONS (A-STATEMENTS) BY AMERICAN AND EUROPEAN ECONOMISTS (PARTIAL, SIGNIFICANT COEFFICIENTS OF A PROBIT ESTIMATION)

A-statements (abbreviated)	Americans	Europeans			
		AUT	FRA	FRG	SUI
Tariffs and quotas reduce welfare	0.7 ^a		-0.5 ^a	0.5 ^a	
Cash better than in-kind transfers	0.3 ^a		-0.1 ^c		
Flexible exchange rates are effective		-0.4 ^b	-1.0 ^a		
Minimum wage increases unemployment	0.2 ^a		-0.7 ^a		
Introduce a negative income tax	0.5 ^a			-0.1 ^c	-0.2 ^c
Rent ceiling hurts housing		-0.5 ^c	-1.0 ^a		-0.6 ^b
Effluent taxes preferred to pollution control	0.2 ^b	-0.3 ^c		0.2 ^b	

Notes: AUT = Austria, FRA = France, FRG = West Germany, SUI = Switzerland.

Source: Pommerehne et al. (1984 [selection from table C] pp. 298–307).

^a $P < 0.01$.

^b $P < 0.05$.

^c $P < 0.1$.

cantly higher degree than the whole sample (shown by the positive partial coefficients). Europeans answer these A-statements in a different way because they face distinct constraints in their professional lives. Due to their greater involvement in practical policy-making, European economists consider the relevant institutions.

An explanation for the lower European support, for example, of the negative income tax may be that European economists who consider their specific institutional setting fear that the negative income tax would be undermined by political forces interested in maintaining the established welfare administration and that the effect of introducing the negative income tax would inflate the welfare system. Under such a scenario, the negative income tax is obviously not very agreeable. In contrast, American

economists tend to answer as if it were a textbook statement. Similar differences in approaching the statements caused by differences in incentives may be used to explain the differing answers to the other statements.

American and European opinions also systematically deviate with respect to the distinction between micro and macro, as well as between positive and normative statements, which can be explained by the differences in incentives and therefore activities of the two groups of economists. The American studies (Kearl et al., 1979; Richard Alston et al., 1992) find that American economists have a larger degree of consensus on micro than on macro questions, a finding which belongs to the economists' folklore. Surprisingly, the studies for Europe can hardly find any difference (see e.g., Martin Ricketts and Edward Shoesmith, 1990 p. 86), but no explanation is provided by either side. We suggest that American economists acting in the competitive academic market are coerced to respond in the “textbook” mode and to look at the statements more in terms of academic exercises, while European economists tend to consider the statements from an applicant's point of view, whereby micro and macro statements are equally subject to the specific institutional conditions to which they refer. Consequently, there is little reason to make a neat separation between the two spheres of economics. This applies even more strongly to the distinction between positive and normative statements. Moreover, economists as policymakers are only successful if they take a clear position on issues (see Robert Nelson, 1987). As a result, positive and normative get mingled.

V. The Future

The message of this paper is that economic scholars react to relative prices: the competitive American academic market drives them to specialize in publishing abstract papers in narrow fields of neoclassics; the closed national European markets, on the other hand, induce economists to be theoretically broad and to specialize with

respect to institutions. They engage more fully in practical politics. As a result, output (performance) is approached differently. Americans dominate journal publications and citations (A-output) and tend to respond in a textbook manner to statements of opinion (A-statements). European economists have a proud performance with respect to political position (E-output) and tend to evaluate performance with respect to how it is achieved (E-process).

The analysis can only give a broad picture of the conditions on the two continents. We are well aware that there are large variations within America (MIT is certainly not Chicago [see Klamer and Colander, 1990 pp. 20–5], and we are even more aware of the differences within Europe. We nevertheless claim—and empirical evidence supports this view—that American economists differ in a significant and interesting way from European economists.

However, this difference is about to vanish in the future, owing to a major institutional change which is bound to affect European economists' behavior. An integration of Europe opening up the previously closed markets makes cartellization more difficult. Government intervention lowering the universities' quality will be more costly, because students and faculty members will be more mobile; and the large academic market will be able to judge quality more efficiently and resort to an evaluation in terms of publication record. In short, the European academic market will become similar to the American one. There are already clear signs of this (e.g., in the form of the foundation of the European Economic Association and joint doctoral programs beyond national boundaries). Thus, the European unification will not lead to distinct "European economics" as some people expect, but the larger market will produce more similarities and consensus among economists. Whether this development is desirable remains an open question.

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