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## Economix

Explaining the Science of Everyday Life



October 13, 2008, 10:48 am

## Honoring Paul Krugman

By [Edward L. Glaeser](#)



*Edward L. Glaeser is an economist at Harvard.*

Rarely, if ever, has an economics Nobel laureate been as widely known before receiving the prize as Paul Krugman. His New York Times columns have been read by millions; he has argued economic policy eloquently in a large number of popular books. Yet these pursuits had little to do with the decision of the Nobel committee. They gave this prize to honor a truly seminal figure in economic trade and geography. Mr. Krugman's fame as a public intellectual should not lead anyone to think that they understand his contributions to economic research just because they regularly read his columns.

The Nobel Prize citation highlights two distinct but connected contributions: Mr. Krugman's development of the "new trade theory" and his work on the "new economic geography." International trade has a long history in economics, and for the bulk of the field's history, patterns of trade have been explained by factor endowments and comparative advantage. Why does England export wool and Portugal export wine? The cold winters of Yorkshire produce really fluffy sheep and the banks of the Douro produce splendid grapes. Yet comparative advantage does little to explain much of modern international trade, especially not trade within industries.

Mr. Krugman published two seminal papers in 1979 and 1980 that made sense of the fact that Toyota sells cars in Germany and Mercedes-Benz sells cars in Japan. Mr. Krugman started with a variant of Edward Chamberlain's model of monopolistic competition. In this model, every firm sells a slightly different good — an Infiniti is not exactly the same thing as a BMW. There are fixed costs of production, which means that producers get more efficient as they sell more. Finally, consumers like variety, so that even if they live in the Land of the Rising Sun, with its abundant well-made cars, they still occasionally want something a little more Teutonic.

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better than the 19th-century framework of David Ricardo, or the mid-20th-century models of Eli Heckscher, Bertil Ohlin and Paul Samuelson. The fact that two out of three of those 20th-century giants are themselves Swedes should remind us of how seriously the Swedes take their trade theory, and what a big deal it is for them to admit Mr. Krugman to the pantheon.

Mr. Krugman's trade models became the standard in the economics profession both because they fit the world a bit better and because they were masterpieces of mathematical modeling. His models' combination of realism, elegance and tractability meant that they could provide the underpinnings for thousands of subsequent papers on trade, economic growth, political economy and especially economic geography.

Mr. Krugman's 1991 *Journal of Political Economy* paper, "Increasing Returns and Economic Geography," is the first article that provides a clear, internally consistent mathematically rigorous framework for thinking simultaneously about trade and the location of people and firms across space. It is one of only two models that I insist that Harvard's Ph.D. students in urban economics be able to regurgitate, equation by equation.

The model begins with the same basic elements as the new trade theory: monopolistic competition, scale economics, love of variety. To these elements Mr. Krugman adds free migration of workers across space and industries. Because workers are able to move, real wages equalize across space. People in New York City may be paid more, but they give some of that back in the form of higher housing prices. The paper provides economists with a clear framework that can make sense of where we all live. Firms and workers are pulled toward the same location to reduce transportation costs of shipping goods. For example, the garment industry located in New York City, in part because of the vast trade in textiles that was already moving through the city and because of the large number of customers already living in America's largest city.

Of course, we don't all live in the same city. A good model of geography needs both a centripetal and a centrifugal force. In Mr. Krugman's model, populations are pulled apart by the desire to be close to natural inputs, like land or coal mines. Cyrus McCormick moved his reaper business from Virginia to Chicago to be closer to his rural customers in the Midwest. Later models incorporated traffic congestion and other forces that limit the growth of a single large urban area. Mr. Krugman's model proved to quite adaptable; it has received thousands of citations.

In his public role, Paul Krugman is often a polarizing figure, loved by millions but also intensely disliked by his political opponents. I still chuckle over an old *New Yorker* cartoon with one plutocrat saying to another that he gets some satisfaction from the fact that his vote will cancel out the vote of Paul Krugman. Within the less divided world of the academy, Mr. Krugman's economic research has generated plenty of light, but far less heat. His papers are universally acknowledged to be immense contributions that helped to create two distinct fields. His Nobel Prize is extremely well deserved and not unexpected. I, for one, had bet on him in Harvard's Nobel Prize winner pool.

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1. 1. October 13, 2008 11:36 am [Link](#)

I have seen him on CNN. I think he always makes intelligent comments.

— *MR*

2. 2. October 13, 2008 11:48 am [Link](#)

Very well deserved, and also a very good timing, politically viewed. These are times where Mr. Krugman's insights should get special attention within the USA. As economic historian, I expect regular ups and downs, but this one was started by foolish policies combined with near-criminal behaviour.

— *Anton, Netherlands*

3. 3. October 13, 2008 11:55 am [Link](#)

I could not be more pleased. I was not familiar with Krugman's early work but I will go back and look at it. He has been a voice for sanity and reason in his columns and punditry. His detractors always seem uncomfortable and even Palinesque, in trying to reply to his arguments. He is usually the smartest guy in the room and I am glad that he was Honored by the Nobel committee.

— *Frank Shifreen*

4. 4. October 13, 2008 11:56 am [Link](#)

Bravo Paul Krugman. The Nobel committee had done itself proud. I've been reading Paul's New York Times columns religiously for years, and have read two of his books. What I like about Paul is that he understands his discipline so well that he doesn't have to talk in jargon. He explains things in a way that is understandable by laymen. That's a true sign of consummate understanding. He called the recent "bailout" or "rescue" a bad plan but said it was better than doing nothing. More recently, the changes that have been suggested to the plan reflect the deficiencies that Paul had pointed out. I hope President Obama adds Krugman to his list of advisors.

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knowing nothing of economic theory (the mathematics), writing simply as an observer and reader of krugman's columns, i now feel fully vindicated in regarding him as consistently more pragmatic and realistic in his general assessments than ideologues of a dogmatic free-market gospel 😊 this reader offers professor krugman my congratulations.

— *chea prince*

6. 6. October 13, 2008 12:09 pm [Link](#)

Congratulations. Krugman has a holistic and humane view of economics. Krugman often makes connections from the workers perspective. He certainly is not like Treasury Secretary Paulson. Paulson arrogantly uses a false raspy vernacular that is passively condescending. Paulson's elitist boardroom slang and style is intended to confuse the people he serves. I nominate Krugman as the point man that will negotiate an equitable resolution for all. His language is accessible and his assessments are impeccable. Krug buddy, email me... My Family could use a pen pal like you to get us through this on a good note. Just kidding. We are cool man.

— *Fernando Vega*

7. 7. October 13, 2008 12:12 pm [Link](#)

Our entire family has been a fan of Krugman's for years, his columns have been dinner table grist at our house. Kudos Krugman!

— *Marcia*

8. 8. October 13, 2008 12:12 pm [Link](#)

A poet writes in prose:

Turning and turning in the widening gyre  
The falcon cannot hear the falconer;  
Things fall apart; the centre cannot hold;

An economist in equations.....

Props to you Krugman

—JFK

— *JFK*

9. 9. October 13, 2008 12:13 pm [Link](#)

Congrats to Paul. It's great to see a respectable and extremely intelligent individual regularly share his expertise in the public space.

— *Haz*

10. 10. October 13, 2008 12:13 pm [Link](#)

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better than the 19th-century framework of David Ricardo . Given the fact that Ricardo's theories of anti-protectionism and comparative advantage were the starting point of international trade theory, I can't see how such statements are published. The fact Dr. Krugman is easily accepted by the left (unlike the majority of economists in academia), it makes perfect sense from an editor's perspective.

— *Cole Yeager*

11. 11. October 13, 2008 12:13 pm [Link](#)

Congratulations Mr. Krugman. How appropriate that it comes at a time when economics has moved to the forefront of the world stage.

— *Tom*

12. 12. October 13, 2008 12:16 pm [Link](#)

Thank you for the explanation of his work; I am one of those who consistently read his column and his books, but did not know about his work on international trade. Indeed, I am thrilled that he has won.

— *Lisa W*

13. 13. October 13, 2008 12:16 pm [Link](#)

There could not have been a more apt winner than Krugman.

In November, we will all be saying that there could not have been a more apt winner of the US Presidential race than Barak Hussein Obama.

In my comments on WAPO, NYT, Guardian (UK) blogs, I have been lobbying for Obama to choose Paul Krugman as his Secretary of the Treasury. I think that, if offered the job, Paul Krugman will accept.

And if Obama offers and Paul Krugman accepts, the US of A would, as it has always done throughout history, emerge from a very difficult situation on the brink to usher-in, for humanity, a new era of third millennium enlightenment — 'brightenment'.

— *FUZZYTRUTHSEEKER*

14. 14. October 13, 2008 12:17 pm [Link](#)

CONGRATULATIONS!

— *TB*

15. 15. October 13, 2008 12:17 pm [Link](#)

I wish we could put Paul Krugman and Robert Reich in charge of the economy instead of the Wall Street hacks, like Paulson, who are running it now.

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i disagree. he would have gotten the prize 15 years ago if it was based on his old writings.

— *green eyes in dc*

17. 17. October 13, 2008 12:18 pm [Link](#)

Because of his thoughts and comments of Bush and the Republicans alone he should have a cabinet position in the Obama administration.

Congradulations Mr. Krugman.

— *Ken*

18. 18. October 13, 2008 12:18 pm [Link](#)

I started reading his articles 3-4 years back. I started reading his, because he explains things in layman terms. Very clear and lucid. I knew that he was a Professor at Princeton University, but nothing about his theories. I was so happy to read that this intelligent person has received the Nobel.

— *BM*

19. 19. October 13, 2008 12:18 pm [Link](#)

Congratulations, Professor Krugman! We have often hoped that your voice would be heard in Washington. It would be so wonderful if you could contribute your wisdom and clarity of thought by becoming an official in the Obama administration.  
Have we not had enough of mediocre minds?

— *Pella cordon bleu*

20. 20. October 13, 2008 12:19 pm [Link](#)

Yup. He earned it. No question.

Just hope that feller Krugman comes good again some day.

— *David Heigham*

21. 21. October 13, 2008 12:20 pm [Link](#)

Congrats Mr Krugman. I read your columns regularly and find it very educative. You do a great publice service thru' your columns and I thank you for that. As usual, can't post a comment in response to your column because that avenue(comments are no longer accepted) is closed.  
Congratulations again.

— *Poppy*

22. 22. October 13, 2008 12:20 pm [Link](#)

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23. 23. October 13, 2008 12:21 pm [Link](#)

I have read his paper and books in my class. Dr. Krugman is a really great economist! I am very happy and proud of conducting research in the same field.

--Zekai He

— *Zekai He*

24. 24. October 13, 2008 12:21 pm [Link](#)

I have read and listened to Paul Krugman for years and learned so much; I now am moved to try to read his more technical works. Thank you for these insights. I wish him and his family all the best, and yes, a great candidate for Secretary of the Treasury. Larry Selinker

— *larry selinker*

25. 25. October 13, 2008 12:28 pm [Link](#)

The best thing that happened to the subject and the profession of economics in a long long time

— *FK*

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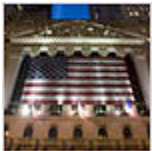
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