

American and European Economics and Economists

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America and Europe differ with regard to what economics is understood to be, how it is practiced, and how professional academic economists behave. In our view, three differences are especially relevant.

First, American (U.S. and Canadian) economists contribute by far the largest share of journal publications and are cited much more often than European economists. In contrast, (West-) European economists consider other aspects of their professional activities more relevant, in particular participating in local and national affairs.

Second, economic research by Americans tends to focus on abstract issues defined within the profession itself. Accordingly, it develops a marked internal dynamic, and academic fads play a considerable role. The activities of European economists (though not necessarily their research) are more concerned with practical issues and follow a more steady course.

Third, American academics are geared to postgraduate teaching, while in Europe they are mostly engaged in undergraduate teaching.

These differences can be explained by the different market conditions faced by American and European economists: In America, the academic market is much larger, and the degree of government intervention is typically much smaller. This paper explores how this leads to different focuses for European and American economists. In addition, it asks whether the ongoing economic unification in Europe may not alter these patterns.¹

¹For a generalization of this approach with respect to various academic fields, countries and time periods, the interested reader might begin with Frey and Eichenberger (1992).

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Markets for Economists and their Consequences

The American market for professional economists employed in academia is large and competitive.² Similarly, the market for journal publications is thick and informative, working as a screening device that permits the quality of papers to be determined by where they are published (for example, Liebowitz and Palmer, 1984). These professional journals take an author's capability to treat issues in a formalized way within the existing paradigm as a low-cost screening procedure that restricts an otherwise potentially huge supply of papers.

In Europe, the situation is drastically different. At least until very recently, each (small) nation had its own separate market for academic economists. These markets are not especially competitive. As entry and exit of academics and students is restricted by the differences in language and various institutions (like differing old-age pension schemes), government can interfere heavily in academia without facing high cost. Indeed, universities are parts of the state administration in practically all continental European countries, where the allocation of the academics to various positions is governed by a bureaucratic process. Moreover, since European scientific publication markets are relatively thin and uninformative, the chance that high quality scientific output will be recognized is more random than in the well-developed American market; thus, the incentives to perform in academic research are lower.

These market differences have systematic implications for research and teaching, and on the role of economists in the political sphere. With respect to research, the American market tends to use the quality and quantity of published articles, together with citations of those articles, as a reliable indicator of a scholar's quality. With this incentive in place, it is little surprise that American economists excel at producing frequently cited articles in academic journals. According to the number of citations in the *Social Science Citation Index* over the period 1972–1983 (Blaug, 1986; Frey and Pommerehne, 1988), the United States and Canada provide 72 percent of all eminent living economists, while only 25 percent are Europeans. The Nobel Prize reveals a similarly heavy American dominance: between 1969 and 1992, 66 percent of the Nobel Prize winners were living in America.

In contrast, the performance of European economists has to be defined and measured differently so that it will correspond to European incentives. While it is less prestigious for European economics professors to excel in purely academic research, they have their own areas of competition. What makes a European economist "important" can be defined by several indicators: the formal examinations passed (doctorate and, in several countries, the Habilitation or Aggregation); one's scientific pedigree as shown by membership to a

²For literature on the economics profession see, among others, Klammer and Colander (1990), Colander (1989), Frey et al. (1984), Pommerehne et al. (1984).

particular academic "school";³ the hierarchical academic position achieved (ordinarius, institute director); the academic resources available, like the number of assistants and the size of the institute; academic honours received, as measured by the number of *doctores honoris causa* or *Festschriften*, decorations and titles; and the position and influence of a professor's students after they have left academia.

In addition, due to the rather small academic reference group within each country, European economics professors have a strong incentive to be recognized and gain influence in areas outside academic economics, in particular in politics. The power of these incentives may be demonstrated by citing some examples.

In Europe, the rank of a Prime Minister was, after 1945, achieved by the following former economics professors at universities: Viggo Kampmann in Denmark; Raymond Barre in France; Ludwig Erhard in Germany; Andreas Papandreou in Greece; Jelle Zijlstra in the Netherlands; Kåre Willoch in Norway; Antonio Salazar and Anibal Cavaco Silva in Portugal; Harold Wilson in the United Kingdom; and, most recently, Tansu Ciller in Turkey.

In December 1991, the following economics professors occupied the position of a (full) minister in the government of the day: Mark Eyskens as Minister of Foreign Affairs in Belgium; Dominique Strauss-Kahn as Minister of Industry and Foreign Trade in France; Klaus Töpfer as Minister of the Environment in Germany; Leszek Balcerowicz as Minister of Finance and Deputy Prime Minister in Poland; Anibal Cavaco Silva as Prime Minister and Jorge Braga de Macedo as Minister of Finance in Portugal; Narciso Serra as Vice-President and Minister of Defence, Carlos Solchaga as Minister of Economics and "Hacienda" and Luis Martinez as Minister of Labor and Social Security in Spain.

In December 1991, there were the following professors of economics in the cabinet of the Netherlands alone: Jacob E. Andriessen (University of Amsterdam) as Minister of Economic Affairs, Jo Ritzen (University of Rotterdam) as Minister of Education and Science, and Jan P. Pronk (University of Amsterdam) as Minister for Development and Cooperation. Moreover, Wim Duisenberg (University of Amsterdam) was president of the Dutch Central Bank.

Indeed, many economics professors in Europe have high positions at state level, in central banks, and even in the European Community. In Germany, for example, again as of December 1991, Herwig Haase, Hans-Jürgen Krupp and Georg Milbradt were ministers of Berlin,

Hamburg and Sachsen respectively; Helmut Hesse, Reimut Joachimsen, Norbert Klöten and Kurt Nemitz were presidents of the Länder-

³In America, there are also schools of economic thought (Klamer and Colander, 1990), but belonging to a particular school is no substitute for performance according to the American standard of output—that is, the external evaluation in America works due to the large market. In Europe, on the other hand, an academic school of thought tends to have self-defined criteria for evaluating quality, so that it is nearly impossible to compare the performance of scholars across schools.

banken of Niedersachsen, Nordrhein-Westfalen, Baden-Württemberg and Bremen respectively; and Otmar Issing was a member of the directorate (Direktorium) of the Bundesbank. Thus, five of the 16 members of the "Zentralbankrat der Bundesbank" were economics professors. At the European level, the President of the EC-Commission, Jacques Delors, provides the most important example of an economics professor at a high level.

With the exception of Helmut Hesse and Norbert Klotten, *none* of these high achievers according to European standards is mentioned in Blaug's (1986) *Who's Who in Economics*. But that volume is based on citations, the American metric for academic output.

In Europe, in recent decades, some economics professors have remarkably achieved fame in both areas: ranking high on American-output, they have also responded to European-incentives and 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 U.K.); Nicolaas Pierson (Prime Minister and central bank president in the Netherlands); and Oscar Lange (deputy chairman of Poland's collective presidency).

Taken together, these examples illustrate the substantial role European economics professors play as politicians, not just as advisers. In contrast, when American economists consider their political influence, they tend to restrict it to advisory functions, like the Council of Economic Advisers. American academic economists can claim a strong record as political advisers, but this applies even more to Europeans. The argument that Europeans could be expected to occupy more high political positions because there are more such positions in Europe than in America only pinpoints our basic insight that European economics professors have stronger incentives and opportunities in making this kind of social contribution.

The greater size and openness of the American market does, together with the smaller extent of government intervention, not only influence the choice between research and entering a political career, but affect the type of research carried out. American economists tend to specialize in theory (at least until they have reached fame), but neglect local institutions; European economists, in contrast, are theoretically broad and institutionally specialized. In the large American market, young economics scholars can mainly distinguish themselves from the many other competitors by specializing and investing deeply in a particular theoretical topic, and hope to publish their research results in a well-regarded journal. For a young American scholar, detailed knowledge of a particular sector of the economy or of city or state government is of little or no benefit in the continent-wide academic market. Local institutional knowledge is a bad investment in a competitive market where the suppliers must be prepared to be highly mobile. American graduate students in economics,

knowing that they must be mobile themselves, demand an instruction substantially free of local institutional content.

In this theory-prone American market, the main criterion is the ability to formalize. Technique is what matters, or, according to Kolm (1988, p. 210–11), the question whether a scholar is able to solve “classroom-like exercises” and “amusing little games.” As a consequence, only 3 percent of graduate students in top U.S. economics programs 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 what matters and 57 percent believe that “excellence in mathematics” is very important (Klamer and Colander, 1990, p. 18). Since economic research in America responds quickly to prospects in this self-defined market, one observes abrupt changes in topics treated and in techniques used that are little related to the underlying social problems and issues. Recent examples are the flurry of works in rational expectations and reputation which, to outside observers, are fads that suddenly and inexplicably arise and will disappear just as quickly.

In a typical European country, the smaller market size and the higher degree of government intervention give quite a different picture. Full professors (and many others) have life-long employment, and their scientific performance has virtually no effect on salary and position, with obvious effects on the motivation for academic work. Economics professors are induced to invest their human capital in specific knowledge of local economic problems and institutions, which is helpful for a political career and getting various appointments. Graduate students in economics know that they will almost certainly stay in the same country, quite likely even in the same city, and hence have an incentive to learn about local institutions.

Interestingly enough, research by European economists is *not* more relevant than that of their American counterparts; indeed, much of it is rather abstract and general. However, the reason for such a lack of pertinence is quite different. In Europe, it is the lack of incentives to produce and publish research, which allows scholars to pursue any research they personally find interesting. They face little or no opportunity cost for pursuing quirky lines of research. As a result, European research often looks bizarre or outmoded to American scholars, but sometimes (rarely) also “highly original.” Europeans, on the other hand, often perceive their American colleagues as not really interested in the problems studied and switching easily from one scientific position to the next without ever being seriously committed.

Finally, the differences in academic markets create different incentives for teaching, especially undergraduate teaching. Scholars in the American market have little career incentives for putting much effort into teaching undergraduates. Aspiring young academics face high opportunity cost because their career depends not so much on their teaching record but rather on the quality and number of journal publications. Institutional incentives (such as prizes and awards) have to be especially established to counter these tendencies.

Postgraduate teaching is of more interest to the scholars because it is more closely connected with research. There is a tendency to teach in a theory-oriented, abstract way and to pay little attention to institutional facts. Not surprisingly, one of the main results of recent research on the state of economics education has been that prospective employers of trained economists in business and government are dissatisfied with the current training (Krueger, 1991, p. 1038; Beed and Kane, 1991, p. 602).

European professors face quite a different set of incentives with respect to teaching. Owing to their own and their students' restricted mobility, they gain influence and prestige in their local community by being good and devoted teachers. An economics professor who has taught 20 or 30 years at the same university will, over time, see former students make their careers in business and public administration. A professor who has favourably impressed those students has established valuable personal contacts which help to gain appointments of all sorts and the necessary support for a political career.

Europeans Who Follow the American Model

The discussion so far has distinguished only between American and European academic economists, on the presumption that the differences between these two groups are large and important, while the differences within these groups are less systematic.⁴ However, it is fruitful to consider those European academics separately who are internationally-oriented—which in the case of economists usually means America-oriented. They often visit universities and research centers in North America, write in English and publish in the leading professional journals ("leading" according to American standards). The work style of these European economists is revealing. To find interest for their work on the international—that is, American—market, they tend to address formal, theoretical issues and put little or no weight on institutions. This orientation also allows them to overcome language barriers more easily, as they are expressing themselves primarily in mathematical terms. With few exceptions, this self-selected group of Europeans behaves like American economists.

Perhaps even more intriguing is the pattern of European economists who have been successful in publishing their research results, but then return to Europe, stop publishing internationally and devote themselves to political careers. A striking example is Andreas Papandreou, formerly a successful economist in America: back in Greece he pursued a completely different career.

American academic economists tend to have a biased picture of their European cousins. They tend to focus mainly on those Europeans who work

⁴We are well aware that there are large variations within America. MIT or Harvard is certainly not Chicago (those who doubt this might check Klamer and Colander, 1990, p. 20–25). However, we are even more aware of the differences within Europe.

according to American style and are often unaware of the fact that large numbers of academic economists in Europe publish (at best) locally, concentrate on the economic issues and institutions of their own city, region or nation, and participate in the political process. This type of university economist disappears from the scholarly community as defined by the American market, but is often both influential and highly regarded in his or her own country.

What about the counterexample—academic economists in America who are theoretically broad and institutionally specialized? This type does exist at less prominent colleges, but these colleges tend to get a low ranking according to the explicit publication-based criteria of the American market. It is not too harsh to say that in America, these economists are not regarded as “serious” academics.

An Integrated European Market for Economists?

The economic integration of Europe will create a fuller integration of all kinds of markets, including those for scholarly services. The market for university professors has already been partly deregulated, resulting in a larger and more competitive market for academics with more cross-national mobility. In short, the European market is becoming more similar to the American market. As a result, we believe that an increasing share of European economists will be theoretically specialized and institutionally non-specific. This development is already visible in the various transnational graduate programs, as well as in the (recently founded) European Economic Association.

However, one development in Europe points in the opposite direction. Although a unified European market is being established, there is also a distinct movement toward regionalization. Regions define themselves as cultural identities in particular by a common language or dialect. In this way, language barriers for scientific intercourse—previously suppressed by the national governments—are being established, and small localized markets for academic economists are being created. For example, until ten years ago, Spain had a unified academic market based on Castilian Spanish. In contrast, in the now existing small regional markets of Catalonia and Galicia the professors are expected not only to teach but also write scholarly texts in Catalanian or Galician. Consequently, in these regions the effects of small markets are likely to be even more important in the future than they are today.

Assuming that the tendency for a larger and more competitive market for university economists is stronger than the regionalization, several changes are to be expected. European students will have more to gain by studying theoretically specialized economics at the (leading) American graduate schools, since this holds a greater promise of success in a more unified European market, and the number of Europeans who seek to publish American-style academic output will increase. Both these trends are already visible (Hansen, 1991).

In the longer run, a unified European market will bring increased mobility among academic economists, in particular with more Americans teaching and researching in Europe. There will be little, if any, difference between the type of economic research produced by Americans or Europeans; both will come up with specialized theoretical results with little local institutional content.

Evaluation

From the standpoint of publication and citation records, which have been constructed to suit the incentives for economists on the American market, European economists may seem less productive. This assumption has caused serious concern among economists in Europe (Portes, 1987). However, we believe that in Europe, economic knowledge is transformed more effectively into policy because the European professors of economics are more engaged in the study of existing local institutions and often pursue a political career. By their own criteria, European economists are more successful than their American counterparts.

The future unification of Europe will alter the present incentives. It induces European scholars (especially young ones) to undertake the same formalized, abstract and institution-unspecific research as American academics. Both Americans and Europeans will then be confronted with the problem that they will succeed in vigorous work according to self-defined and self-contained professional standards, but that their output (both research and students) meets with decreasing outside demand. According to our analysis, this development is the inevitable consequence of the widening of the market for academic economists and cannot be reversed by exhortations or wishful thinking. We are thus inclined to conclude on a rather pessimistic note: the future of economics as a relevant social science seems rather gloomy.

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