

Edmund Phelps, Nobel laureate



CEP congratulates **Professor Edmund S. Phelps** of Columbia University on being awarded the 2006 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.

Professor Phelps has been recognised 'for his analysis of intertemporal tradeoffs in macroeconomic policy'. The detailed citation notes that his work on the microeconomic foundations of wage and price setting is a precursor of the search and matching theory of unemployment, where Christopher Pissarides – director of CEP's macroeconomics programme – has made especially important contributions. The citation also refers to the significant contribution to analysis of unemployment by CEP's founder director Richard Layard with Stephen Nickell and Richard Jackman.

Professor Pissarides comments on the new Nobel laureate:

'The prize was richly deserved. Ned Phelps made fundamental contributions to the analysis of economies in which the future has an impact on what we see happening in the present. Today we take it for granted that expectations about the future matter for policy. Phelps was one of the pioneers of this idea, and it is a measure of his success that we take it for granted today.'

'Along with Milton Friedman, Phelps revolutionised our way of thinking about the inflation-unemployment trade-off, which has influenced policy-makers since the 1960s. He showed that the economy has an 'equilibrium unemployment rate' (known by the name that Friedman gave to it, the natural unemployment

rate) and attempts to reduce it below that level by monetary and fiscal policy intervention are doomed to failure. Left alone, the economy will get to that level.'

'But Phelps went beyond the claim of the mere existence of a natural rate, to show that the natural rate need not be the optimal rate. So governments may or perhaps should try and influence the natural rate, but not with stabilisation policy. He advocated the use of well-designed policies aimed at increasing the attractiveness of low-skilled workers to employers, and tax policies that give work incentives to workers with low earned incomes.'

'One of Phelps' most important articles – 'Phillips Curves, Expectations of Inflation and Optimal Unemployment over Time' – was written in 1966 when he was SSRC research fellow at LSE, and published in *Economica*, a leading economics journal edited at the School.'

'A few years later, his work was instrumental in my choice of PhD topic, and has since influenced many of us in our research on unemployment. Phelps visited LSE frequently to interact with the economists at CEP, especially during the preparation of his 1994 book *Structural Slumps*. We are all very pleased by the award.'

The full citation is available here:

http://nobelprize.org/nobel_prizes/economics/laureates/2006/eoadv06.pdf