PAUL R. KRUGMAN

JOHN BATES CLARK MEDALIST

1991

Although Paul Krugman remains young enough to be awarded the Clark Medal, he already is widely regarded as one of the most distinguished members of the economics profession. Krugman is the outstanding international economist among his generation and has played a leading role in virtually every important development in international economics during the past decade, making path-breaking contributions to the "nonmonetary" theory of international trade and, in the study of open-economy macroeconomics, to the analysis of the determinants of exchange-rate movements. While in its sheer volume Paul Krugman's scholarly output has been nothing short of phenomenal, the quality of the individual papers and their impact has been still more impressive. If he has not been the sole contributor to the major reorientations with which his name is associated in our thinking about international economics, and about economics more generally, it must be acknowledged that in remarkably many instances he was first and most influential.

In a remarkable series of early papers, beginning with his path-breaking 1979 article on "Increasing Returns, Monopolistic Competition, and International Trade," in the *Journal of International Economics*, Krugman (together with Elhanan Helpman, Avinash Dixit, and Wilfred Ethier) reoriented the "real" theory of international trade by developing a rigorous alternative to the Ricardian and Heckscher-Ohlin approach. Unlike the latter, the "new trade theory" was able to account for the empirical observations that the volume of commodity trade passing between similarly endowed countries tends to be significantly greater than is the case where trading partners are quite dissimilar and that trading patterns among the industrialized nations include a substantial amount of two-way trade in commodities of similar factor intensity. Moving quickly and decisively beyond the initial act of creative arbitrage represented by his recasting of general-equilibrium trade theory in a modern industrial organization framework, Krugman synthesized the traditional and new approaches in a single model that combined imperfect competition with diverse factor proportions. He was able thereby to obtain a number of very important results regarding the effects of trade liberalization; although the opening of trade is well known to be harmful to one of two factors when diverse factor endowments are the basis for exchange, it is favorable to both factors when exchange is driven by increasing returns to scale. As a corollary proposition, Krugman's analysis established that the more diverse are the two countries' factor proportions relative to the degree of product differentiation, the greater is the scope for the opening of trade to be mutually beneficial.

Krugman has drawn out the implications of the presence of increasing returns and imperfect competition in the international economy in a variety of ways. Some of these have been concerned with the nature of cumulative processes based on external economies of scale and the role these open for the influence of "accidents of history" and policy shocks to exert a persisting influence on the international structure of industrial specialization and trade. Others have been explicitly oriented to address more immediate policy concerns—such as the impact of government protectionist policies on individual firms in oligopolistic markets—thereby demonstrating the practical relevance of "the new trade theory."