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# **American wins Nobel in economics**

## **Edmund S. Phelps changed the way the world thinks about unemployment and inflation.**

**By Matt Moore And Karl Ritter**

Associated Press

**STOCKHOLM, Sweden** - American Edmund S. Phelps won the 2006 Nobel Memorial Prize in Economic Sciences on Monday for explaining the relationship between inflation and unemployment, work that has had a profound impact on macroeconomic policy.

The 73-year-old Columbia University professor challenged prevailing views in the 1960s by developing an economic model that has helped corporate and government leaders balance inflation and unemployment in decision-making.

### **U.S. DOMINATION**

Phelps is the sixth American to win a Nobel this year, meaning that every prize -- except for the literature and peace awards, which are yet to be announced -- has gone to Americans.

Phelps told reporters in his New York apartment that he learned of the prize in a phone call from Sweden shortly after 6 a.m. He said he had waited for the award for a long time, but wasn't expecting it this year.

"I thought for a time I would get it in my 60s, then I thought I would get it in my 70s and, more recently, I've been thinking that I would get it in my 80s," he said.

He said he planned to teach his class at Columbia later Monday but the department would probably celebrate with champagne.

The Royal Swedish Academy of Sciences said Phelps' work, done in the late 1960s, had "deepened our understanding of the relation between short-run and long-run effects of economic policy."

Phelps challenged the prevailing view in the 1960s that there was a stable, negative relationship between inflation and unemployment, illustrated by the so-called Phillips curve.

"He recognized that inflation does not only depend on unemployment, but also on the expectations of firms and employees about price and wage increases," the academy said.

Phelps put together a new model to describe the relationship between inflation and unemployment, known as the expectations-augmented Phillips curve.

"That idea has been accepted all over the world," prize committee member Bertil Holmlund said. "It has been a resounding success story."

Nariman Behraves, chief economist with the Global Insight research and consulting firm outside Boston, said Phelps did "pioneering work" on the alleged trade-off between unemployment and inflation.

"He, along with Milton Friedman, argued that in the long run, that trade-off doesn't exist," said Behraves, who studied under Phelps at the University of Pennsylvania.

Friedman won the Nobel in economics in 1976.

## **HUMAN CAPITAL**

Phelps also pioneered the analysis of the importance of human capital, or workers themselves, for growth in the business world, the academy said in its citation.

Phelps was born in Chicago and earned his bachelor's degree at Amherst College in 1955 and his Ph.D. at Yale University in 1959.

He has been the McVickar professor of political economy at Columbia since 1982.

Previous winners of the economics prize, given out since 1969, ranged from how the control of information affects markets to welfare economics used to explain the economic mechanisms that underlie famine and poverty.

The economics prize, worth \$1.4 million, is the only one of the awards not established in the will left by Swedish industrialist Alfred Nobel 111 years ago.

The medicine, physics, chemistry, literature and peace prizes were first awarded in 1901, while the economics prize was set up separately by the Swedish central bank in 1968.

The Nobel prizes are presented Dec. 10, the anniversary of the death of their founder. The peace prize is awarded in Oslo; the others are presented in Stockholm.