Nobel economists: Masters of theory, if not of practice

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Winning the Nobel Prize for Economics brings great prestige, but there is no guarantee the recipient will win over policymakers, the real practitioners of the dismal science.

The award, officially Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, will be awarded Monday at 11 GMT in Stockholm.

It will close a Nobel season marked by awards in physics to the fathers of the Higgs boson and a peace prize to the UN-backed Organisation for the Prohibition of Chemicals Weapons.

As usual, American economists dominate the list of favourites, just as they have dominated the roster of laureates over the past 10 years, with 17 out of the 20 recipients, who are often awarded in groups, coming from the US side of the Atlantic.

After the 2012 economics prize acknowledged game theory, a somewhat ancillary field, it is possible that this year it will return to the core concerns of the economic science.

Favourites include Robert Barro of Harvard and Paul Romer of New York University, who have both done work on growth.

Also on the list of serious contenders are finance specialists such as the University of Chicago's Eugene Fama and Kenneth French of Dartmouth

College.

Behavioural finance, too, would get a nod if the prize went to Andrei Shleifer of Harvard, Robert Vishny of the University of Chicago and Robert Shiller of Yale.

It's all up to six Swedish university professors.

"The Nobel Prize in Economics is recognised as the pinnacle of intellectual achievement in economics," said Avner Offer, an economics historian at Oxford University.

However, the winners do not necessarily become key advisors to important policy-makers. Some do not even aspire to that position.

"Not all of economic research that was awarded the Nobel is applicable by policy-makers," said Jan Haeggstroem, chief economist at Swedish lender Handelsbanken.

"Or it is for very specific problems, like the research on the functioning of markets."

He was referring to 2012 laureates Lloyd Shapley of UCLA and Stanford's Alvin Roth, who studied theories of supply and demand in a theoretical marriage market

While their models can predict the optimal matches among small groups of men and women, they have little to say about creating jobs for millions or keeping inflation down.

Government leaders interested in more conventional issues are more likely to read works by 2010 laureates Peter Diamond of the Massachusetts Institute of Technology, Dale Mortensen of Northwestern

University and Christopher Pissarides of the London School of Economics.

Their work on the labour market is authoritative, but even a Nobel win was not enough to give Diamond a seat at the Federal Reserve, the US central bank.

Picked by US President Barack Obama for the Fed's board of governors, Diamond was eventually turned away by Republican opposition.

"Unquestionably Nobel is a major honour. Yet being a Nobel recipient does not mean one is qualified for every conceivable position," said US Senator Richard Shelby, one of the main opponents to Diamond's appointment.

Some in Europe may now regret not heeding 2011 laureate Christopher Sims, a macroeconomist from Princeton.

As early as 1999, Sims criticised the euro zone, saying "the European Monetary Union has the appearance of an attempt to create a central bank and a monetary unit that have no corresponding fiscal authority behind them."

The Greek crisis would prove him right 11 years later.

According to Offer, the Oxford economic historian, it is to be expected that policymakers who have to make difficult decisions about real-life problems are reluctant to follow theoreticians.

What is in doubt "is not the beauty or internal validity of creative work in economics, which is excellent," he said.

"It's the external validity, how much it tells us about real economies, and what authority it has to inform policy."

Swedish economist Klas Eklund, once a government advisor, emphasised the many uncertainties that can hurt a theory's application.

"Building an economic model is complicated work. It takes time to test it," he said.

"And even if it works in one country at a certain point, you may realise it does not in another country."