

August Lösch Prize 2012

Distinguished guests, dear colleagues, ladies and gentlemen.

It is a great honour and privilege to have the pleasure of introducing the winner of the 2012 August Lösch Prize. As you will know the Prize was created in 1971 and first awarded in 1972 by the City of Heidenheim to honour one of its most famous sons; and we are grateful for the continuing support from Lösch's birthplace. The prize is intended to reward outstanding academic research in the field of regional science. The list of former prize winners includes many of the most well-known German economists who have worked on spatial problems.

Since 2006, the centenary of August Lösch's birth in Heidenheim, the scope of the prize has been widened to include recognition of work published in English and to include international members of the jury, of which I have had the privilege to be a member. And it is a privilege because it enables me to read some of the best papers published in our field. It is also a privilege to be back in Kiel at the Institute where Lösch worked until his untimely death in 1945. It is a fitting testimony to the esteem in which August Lösch's memory is held that so many submit papers to the competition. This year reached another record entry with 73 submissions and although all members of the jury had access to all of these papers I am grateful to the local members of the jury, Johannes Bröcker, Rüdiger Soltwedel and Javier Revilla Diez, for undertaking the initial sift and proposing a shortlist for the jury to focus its main attention on. This shortlist consisted of ten main contenders from which we selected four entries and, in the best tradition of elections this year, it took two rounds of voting to secure the winner.

August Lösch was essentially a lone researcher, perhaps not surprisingly in the circumstances of the time, but increasingly we see that some of the most innovative work comes from the joint application of minds to problems. In an article in the current issue of the British Airways *Business Life* magazine, Tim Harford has commented "In academia the advancing frontier of scientific

knowledge poses a particular challenge. Once, all it took was a single Isaac Newton type and vast progress could be made. But now scientific fields are narrower and measurably so.....Clearly collaboration is essential.....In other words, unless people get out of their silos and talk to each other, nobody knows anything". And although this joint application is often realised, as in the case of this year's winning entry, by researchers using modern communication methods to overcome spatial separation, what is evident is that it is initial chance encounters in the same institute which can lead to a succession of high quality papers. So location and agglomeration economies do matter even if subsequent distance is no longer such a barrier.

The August Lösch Prize for 2012, goes to Kristian Behrens, Université du Québec à Montréal, Canada and Yasusada Murata, Nihon University, Japan for their outstanding joint work on "Trade, Competition and Efficiency". This work is embodied in three papers:

General equilibrium models of monopolistic competition: a new approach, *Journal of Economic Theory* (2007).

City size and the Henry George Theorem under monopolistic competition, *Journal of Urban Economics* (2009).

Trade, competition, and efficiency, *Journal of International Economics*, (2012)

These see progressive developments of a model of monopolistic competition in a spatial context which goes beyond the usual assumption of the Dixit-Stiglitz model which has become the workhorse of the new economic geography after Krugman's path-breaking 1991 paper. As Behrens and Murata point out "The CES specification has a peculiar feature that markups are the same across space. However, recent empirical evidence suggests that markups are heterogeneous and change in response to trade integration."

Whilst earlier work by Ottoviani and others has developed models which allow for the competitive effects in such cases they ignore income effects. The first of the Behrens-Murata papers develops a more general model of monopolistic competition which has both income and pro-competitive effects. Unlike

models which use the CES function or constant relative risk aversion, they use a constant absolute risk aversion specification. The second paper applies the model to a monocentric city model to revisit the Henry George Theorem , in the presence of variety and price distortions. This paper shows that the HGT holds at the second best under monopolistic competition if and only if the utility function is of the CES form. In the third paper the authors extend the CARA model framework to develop a multi-region multi-sector setting. They claim that this is the first paper to extend Krugman's variable elasticity of substitution model to multiple sectors. This allows an analysis of how trade affects intersectoral and intrasectoral distortions via variety and markup changes, and paves the way for the subsequent theoretical and empirical analysis that successfully introduces for the first time trade costs and consumer and firm heterogeneity.

This sequence of papers is very powerful and very much in a Lösschian tradition because it starts with a theoretical approach to understanding empirical observations and then develops this to address the related issues of trade, city size and mobility in a way which allows for empirical estimation and not just the numerical simulation which has dominated much of the NEG research. The papers are thorough complex and clever and demonstrate the best sort of example of working methodically and step by step to improve our understanding of the workings of a spatial economy.

The origins of this work appear to have been in the productive surroundings of CORE at Louvain la Neuve where Kristian Behrens was a postdoctoral fellow following a PhD at the Université de Bourgogne (France) and Yasusada Murata was a visitor following a PhD at the University of Tokyo. Since then Behrens has moved to Canada at the Université du Québec à Montréal where he is now Associate Professor and holder of the Canada Research Chair in Regional Impacts of Globalization. Murata is now Associate Professor at the Advanced Research Institute for the Sciences and Humanities, Nihon University. Both authors have impressive publication records, both have co-authored papers with other leading names in the spatial economics field such as Thisse, Ottoviani, Tabuchi and a previous Lössch prize-winner

Robert-Nicoud. Two of Kristian Behrens papers are appearing later this year in a collection of critical writings in transport economics of the last 20 years which I have edited and to be published by Edward Elgar.

I think one can see that the future of spatial economics is in safe hands and August Lösch can rest easily now that what may have been a rather Germanic focus on space in Economics during his lifetime has become a global concern. It is with enormous pleasure that I present to you the work of Kristian Behrens and Yasusada Murata for the 2012 August Lösch Prize.