Mincer Award Winners 2006:

Richard B. Freeman is one of the two winners of the 2006 Society of Labor Economists' Jacob Mincer prize honoring lifetime achievements in the field of labor economics. Starting with his PhD thesis, Richard's work has been both provocative and influential. In his thesis--at a time when a number of prominent economists were proposing possible explanations for why, in the U.S., the returns to education continued to remain high despite dramatic increases in the educational attainment of the population--Richard documented both a dramatic decline in economic rewards to higher education and the enrollment responses to this decline. In addition he proposed a simple economic model to rationalize the patterns he observed. Some argued with the data Richard was presenting; however, Richard's findings were subsequently confirmed in census data. Others argued either that students were unaware of the trends or were unmotivated by financial considerations. Richard produced survey evidence showing the opposite. Finally, others noted that the model of expectations that Richard used in this work was naïve. While this is true, subsequent work showed the cyclical behavior predicted by Richard's model would also be characteristic of models that assumed rational expectations on the part of potential students.

Early work of Richard's on the effect of the government's intervention in the labor market on the status of Black Americans was also extremely influential. In a series of papers published in the 1970s Richard argued that the government's intervention in the labor market during the 1960s had a fundamental effect on the economic status of Black Americans. Again, this work was controversial. Some argued that the gains would just be temporary and would evaporate during the first recession. Others argued that the trends were illusory or that they represented secular changes driven by the human capital accumulation. However, when the progress that had occurred during the 1960s failed to continue into the 1980s, more and more economists began to accept the notion that Richard had been right.

Richard's own work on labor unions (much of it written with his colleague James Medoff), and the many studies he inspired his students to undertake, blended traditional "institutional" views, a more critical perspective which had become the mainstream orthodoxy, and Hirschman's concept of "voice". Using panel data, he showed that unions did indeed raise wages, holding worker quality constant, and argued that the standard fixed-effect estimates were, if anything, underestimates due to errors in measuring union status. They also showed that unions increased non-wage compensation (especially health insurance and pensions). Unions influenced the workplace in other ways, replacing supervisors' discretion with formal work rules, backed by grievance systems; they gave workers "voice" as an alternative to "exit", reducing turnover. He argued that work-rule restrictions that led to egregious inefficiencies were the exception – on balance, unions had a modest effect on productivity, more often positive than negative, but not large enough to offset the effects on compensation. As employers became more successful in avoiding unionization, he turned his attention to other voice mechanisms for workers such as employee involvement programs.

Beyond the work already mentioned, Richard has worked on a wide range of topics including the job market for scientists and engineers; the effects of immigration and trade on wage inequality; restructuring European welfare states; Chinese labor markets; transitional economies; youth labor market problems; crime; and income distribution and equity in the marketplace. Richard Freeman obtained his PhD from Harvard University under John Dunlop and then, after a short time at Yale, moved to Chicago, where he was greatly influenced by H. Gregg Lewis. Indeed, one can clearly see both neo-institutional and Chicago school influences in Richard's work. Unlike some labor economists today, but like his Chicago teachers, Richard believes in the value of simple economic models. However, as was true of Dunlop, he also believes that it is important to talk to those whose decisions he is modeling. In addition, he has been willing to obtain whatever data are needed to answer important questions. Together, these features of Richard's work, together with his drive to understand what is actually happening in the labor market, have meant that time and time again Richard has been responsible for some of the most basic findings in labor economics.

In terms of his enthusiasm for new ideas or new findings, Richard reminds one more of a kid in a sandbox than Harvard Professor. In seminars and public forums he works to find the value rather than the flaws in others' work. These traits along with both the quality and the quantity of his work have meant that he has made an enormous contribution to our understanding of how the labor market works.

This year the Society of Labor Economists presents the Mincer Award to **Edward Lazear**, for Lifetime Contributions to the Field of Labor Economics.

Over the course of an innovative and prolific career, Lazear has devoted boundless energy to the analysis of labor market behavior: why workers and employers behave as they do, and how they would behave in other circumstances. In early work, he showed how mandatory retirement rules might arise in competitive labor markets, as a by-product of incentive schemes involving delayed compensation. In work with Sherwin Rosen, he showed why employers sometimes use tournaments rather than piece rates to motivate workers, in situations where it is difficult to measure effort. He also analyzed the empirical relationship between employment protection schemes and the employment to population ratio across countries, emphasizing that legislation restricting an employer's freedom to hire at will cannot be taken at face value, since such restrictions might easily be undone by suitably designed employment contracts.

Subsequently Lazear pulled together the new subfield of "personnel economics," noting that many of the themes stressed in his previous work could be developed with a view to designing employment arrangements that induce workers to cooperate effectively in large establishments.

Lazear's infectious enthusiasm for applied economic analysis has had a lasting impact on labor economics, through his own research contributions, and through his support for the work of younger scholars in the field. His work exemplifies the best traditions of economics, using artfully designed models of rational behavior to look beneath the surface presented by empirical observations. For example, he recently re-analyzed the confusing mass of empirical findings on the relationship between class sizes and educational attainment, arguing that the gains from smaller classes are masked in the data by an efficiency condition that assigns more disruptive students to smaller classes.

Lazear created the Journal of Labor Economics, and worked tirelessly and selflessly to make it perhaps the most successful field journal in economics, in a remarkably short time. He also founded the Society of Labor Economists, and used his peerless organizational skills to develop it into a thriving and self-perpetuating institution that is of great benefit to scholars in the field.

Lazear was recently confirmed as chair of the President's Council of Economic Advisors. He began his career at the University of Chicago's Graduate School of Business, and subsequently moved to Stanford University, where he is the Jack Steele Parker Professor of Human Resources Management and Economics and the Morris Arnold Cox Senior Fellow at the Hoover Institution. He is also an elected fellow of the American Academy of Arts and Sciences, the Econometric Society, and the Society of Labor Economists, and in 2004 he was selected as the third winner of the prestigious IZA Prize in Labor Economics.

2006 Nominating Committee:

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