Mincer Award Winners 2007:

Dale Mortensen

Dale Mortensen is one of the two winners of the 2007 Society of Labor Economists' Jacob Mincer Award for lifetime contributions to the field of labor economics. Dale, who is currently the Ida Cook Professor of Economics at Northwestern University, has revolutionized the economic analysis of labor markets with his work on search and matching models. He was one of the first economists to develop the tools of search theory. He was later one of the leading figures in showing how these tools can be used for gaining a better empirical understanding of the working of labor markets. His work on search and matching theory has led to a large literature on both empirical and theoretical economics, in labor economics and in macroeconomics, and on both sides of the Atlantic. Dale deserves a very large share of the credit for this phenomenal achievement, though he would be the first to share the credit with others, including Ken Burdett, Peter Diamond and Christopher Pissarides.

A central topic in labor economics is the understanding of the level of employment and unemployment in the economy and their variation over time and across societies. While it is sometimes useful to think of labor as just another commodity, with wages and employment determined by the usual supply and demand forces, it has long been argued that there is something different about the determination of the labor market. Although many people have made this observation, Dale was one of the first people to actually do something about it. Employment relationships involve an important element of matching, where the worker's skills have to be well-suited to the job, and the employer must find appropriate workers at the right time. In addition, for many jobs, both employers and employees have to make investments for a potentially long-term relationship. Neither these features nor the concept of "unemployment," which at least superficially looks like a failure of market clearing, fit easily with the neoclassical labor supply-labor demand framework. Dale has been the key player in the development of a new conceptual framework for thinking about unemployment. This framework maintains the powerful and attractive notions of the neoclassical approach, in its emphasis on microfoundations and equilibrium, but combines it with a modeling of the frictions that are ubiquitous in labor markets.

Dale achieved this starting from models of product market search, first developed by, among others, George Stigler and Brian McCall. These models took the process of searching, including the decision-theoretic aspects of search, seriously. But they were partial equilibrium models, taking the distribution of prices as exogenous. This limited their applicability in labor market analyses. Starting with his seminal 1970 papers "A Theory of Wage in Employment Dynamics" in Phelps' famous volume, *Microeconomic Foundations of Employment in Inflation Theory*, and "Job Search, the Duration of Unemployment and the Phillips Curve" in the *American Economic Review*, Dale developed an approach to labor market frictions and search based on equilibrium. The main idea in these papers was to model the arrival of job opportunities for workers as a stochastic process and use tools from bargaining theory and dynamic programming to make progress on the determination of equilibrium unemployment. He advanced this framework further in a number of papers over the years, including "Unemployment Insurance and Labor Supply Decisions" in *Industrial & Labor Relations Review* and "Search, Layoffs and Labor Market Equilibrium" in the *Journal of Political Economy*, written jointly with his former student and long-term collaborator Ken Burdett. These papers have shown how abstract theoretical models relate to functioning of markets in the absence the Walrasian auctioneer can be useful in understanding equilibrium unemployment, wages, layoffs and the effect of unemployment insurance.

At the same time, Dale also contributed to our understanding of externalities created by search frictions in his seminal paper "Property Rights and Efficiency in Meeting, Racing in Related Games" published in the *American Economic Review* in 1982. This paper showed how search and job acceptance decisions create externalities in frictional markets, because not all commodities/attributes are priced correctly (and also suggested possible ways of remedying these externalities).

This body of work, together with contributions from Ken Burdett, Peter Diamond and Christopher Pissarides, created a coherent and empirically useful framework for the analysis of employment and unemployment. The empirical ramifications and power of this framework became apparent only after micro data showed the rich patterns of job to job flows of workers, separations between firms and workers, and the process of job reallocation among firms, for example, as documented by Steve Davis and John Haltiwanger. Dale Mortensen, together with Christopher Pissarides, wrote "Job Creation and Job Destruction in the Theory of Unemployment" (*Review of Economic Studies*), which is the seminal article extending the search models to incorporate the rich dynamics of the job reallocation process. This paper has led to an enormous theoretical and empirical literature using search and matching models to analyze employment, wages, worker flows and job flows.

Another significant direction of research in search theory applied to labor markets came from Dale's collaboration with Ken Burdett, in the form of another seminal paper, "Wage Differentials, Employer Size and Unemployment," published in *International Economic Review*. This paper showed how endogenous wage dispersion can arise as a result of search frictions and this type of dispersion can also account for employer size-wage differentials, documented by Brown and Medoff.

Dale is a brilliant theorist. But at every stage of his career, he has been more than a theorist. All of his important contributions have been motivated by important facts and data. His recent work has turned to the structural investigation of wage dispersion among workers using rich micro data sets from Europe. This work led to his recent book, *Wage Dispersion: Why Are Similar People Paid Differently?* It continues in a series of papers with Rasmus Lentz, developing important links between productivity growth and the reallocation of workers across jobs.

One of Dale's most striking virtues is his wonderful balance between humility and enthusiasm. His enthusiasm for new ideas and his belief in the power of economics never gets the better of scholarly demeanor and modesty. This combination of modesty and enthusiasm has been crucial for Dale's long journey in transforming the profession's approach to labor markets.

Dale's influence is now felt in many different spheres of economics. A large part of current macroeconomics now tries to apply or extend Dale's work. But Dale is first and foremost a labor economist. His work has been and will continue to be influential in labor economics both in the United States and in Europe, and has been recognized by the IZA Prize in Labor Economics awarded jointly to Dale and Christopher Pissarides in 2005. He is also a fellow of the Econometric Society and the American Academy of Arts and Sciences. We are fortunate to have him as an intellectual leader of the Society of Labor Economists.

Finis Welch

finis

Finis Welch is Distinguished Professor Emeritus of Economics at Texas A&M University and Professor Emeritus at the University of California, Los Angeles. After an undergraduate degree in mathematics and agricultural economics at the University of Houston, Welch received his Ph.D. in economics from the University of Chicago in 1966. He directed income distribution research at the National Bureau of Economic Research in New York City during a particularly vibrant period and, subsequently, founded and directed the Labor and Population Studies Program at RAND.

His list of honors includes his selection as a Fellow of the American Academy of Arts and Sciences, his selection as the prestigious Richard T. Ely Lecturer of the American Economic Association, and his election as that organization's Vice-President.

The Jacob Mincer Award is a fitting addition to those honors, as it recognizes Welch's lifetime of contributions to the entire span of the area of labor economics. These contributions include his pioneering research on racial differences in economic outcomes as well as his extremely influential work on the distribution of income—fields where his work has had a lasting and profound impact on several generations of students and scholars. Welch's contributions also include his mentoring of a long series of highly successful graduate and undergraduate students at the City University of New York, UCLA, and finally at Texas A&M University. His friendship with, and support of fellow scholars is truly legendary.

Finally, Finis Welch has been a pioneer in the development of the infrastructure of the data and analyses we now use routinely for studies of the labor market. His development of the software package STATA© (he remains Chairman of the Board of STATA llp) has been a benefit to all, and no doubt was a sound financial investment too. But Welch has worked on many other projects where the only benefits were to our profession.

We are pleased to salute Finis Welch with the Jacob Mincer Award for a lifetime of achievement in the study of labor economics.

2007 Nominating Committee:

Daron Acemoglu
Orley Ashenfelter
Sandra Black
Hilary Hoynes
John Kennan
Shelly Lundberg, chair
Kathryn Shaw