



Award Statement

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The 2020 IZA Prize in Labor Economics is awarded to **Lawrence F. Katz** (*Harvard University, NBER*) for his research on inequality in earnings and patterns of educational change. His research has underlain huge amounts of subsequent work by many other social scientists that has changed how we view inequality in wealthy countries. His focus throughout has been on applying novel approaches to central labor market problems.

Katz's best-known work, "Changes in Relative Wages, 1963–1987: Supply and Demand Factors" (*Quarterly Journal of Economics*, 1992, joint with Kevin M. Murphy), documented and explained the sharp rise in inequality in the U.S. labor market after the mid-1970s. The increase from then to the late 1980s resulted from the demand for skilled (educated) workers outpacing the growth in their supply. The methods used to disentangle the relative importance of supply factors—especially changing educational attainment and changes in the structure of the labor force—from demand factors, particularly technological changes that increased the role of skills in the labor market, were novel and most appropriate. The methodology applied here has been used countless times by other researchers to analyze changing inequality in other countries and even to study other labor market problems.

His interest in problems of inequality has extended to the analysis of how the changing nature of jobs has contributed to changes in earnings and inequality. Concerns about polarization—a "hollowing-out" of the middle of the labor market—have underlain his more recent work on earnings inequality. His study (*American Economic Review*, 2006, joint with David Autor and Melissa Kearney) has pointed out the non-uniform pattern of changing demand for labor of different skills. In the past 25 years, rising inequality has been manifested mostly as an increase in earnings among the highest earners compared to middle earners, with little relative change among lower earners. This original finding has been documented subsequently by many other researchers studying the U.S. and Europe.

A central determinant of earnings and earnings inequality is the level and distribution of educational attainment. Much of Katz's research has focused on this topic too, with many of the results summarized and discussed in his widely praised book, *The Race Between Education and Technology* (Harvard University Press, 2008, with Claudia Goldin). This volume demonstrates the role of the growth of educational institutions over the past 125 years in fueling growth in living standards. His interest in this topic has led him to undertake several experimental projects to discern the roles of credentials per se rather than educational attainment on earnings and employment (*American Economic Review*, 2016, with many co-authors). Using fictitious resumés, the authors show that employers are less likely to seek to interview graduates of for-profit institutions of higher education than they are of public, non-selective institutions.

The analysis of specific labor market policies has also been central to Katz's work. Underlying a huge body of subsequent research is his article on the impact of unemployment insurance and the role of temporary layoffs in determining the duration of unemployment (*Quarterly Journal of Economics*, 1990, with Bruce Meyer). He demonstrated that recalls to previous jobs account for a substantial portion of those unemployment insurance recipients who return to work right when benefits run out. Following up some of his earlier work, he has recently shown (*The Russell Sage Foundation Journal of the Social Sciences*, 2019, with Alan Krueger) that the "gig economy" has not grown very much in the past two decades and remains a small part of wealthy countries' labor markets.

Location matters greatly in determining labor market outcomes, and Larry Katz has done fundamental work in two areas of what should be designated as "regional economics." His work

(*Brookings Papers on Economic Activity*, 1992, with Olivier Blanchard) showed how geographically concentrated product demand shocks alter unemployment and wages, with adjustments to them resulting mostly from labor mobility. In a large series of studies (including *Econometrica*, 2007, with Jeffrey Kling and Jeffrey Liebman, and *American Economic Review*, 2016, with Raj Chetty and Nathaniel Hendren), he demonstrates that changing neighborhoods did not raise adults' earnings but did improve their health. Moving to a better neighborhood improved the adult labor-market outcomes of younger children who moved, consistent with the role of pure neighborhood effects and with exposure to better schools.



Lawrence Katz has been on the economics faculty of Harvard University since 1986 and is currently the Elisabeth Allison Professor of Economics. He has been a Research Associate of the National Bureau of Economic Research since 1990 and a Research Fellow of the IZA since 2009. In 2013–14 he was President of the Society of Labor Economists. He was elected Fellow of the Econometric Society in 1993 and of the American Academy of Arts and Sciences in 2001, and he was elected a member of the U.S. National Academy of Sciences in 2014. He was Chief Economist of the U.S. Department of Labor in 1993–94 and has been on advisory boards of the Congressional Budget Office and the Federal Reserve Bank of Minneapolis.

Even for someone with this remarkable a record of specific scholarly achievement, Larry Katz's service to the economics profession stands out. He has been a member of the Executive Committee of the American Economic Association and served as a Vice-President in 2019. Most important, since 1991 he has been Editor of the *Quarterly Journal of Economics*. During the nearly 30 years of his Editorship, the *QJE* has vaulted to become the most widely cited journal worldwide in the field of economics.

Lawrence Katz is universally recognized in the world of economics as a remarkably imaginative and productive scholar, who combines profound economic research with an interest in current basic and specific issues of public policy. Most important, the same recognition is given to his decency in dealing with other economists, especially junior researchers. We are extremely proud to award the 2020 IZA Prize in Labor Economics to him.

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