3 US-based economists win Nobel for research on wages, jobs

October 11 2021, by David McHugh and David Keyton

This undated photo provided by the MIT Department of Economics shows Joshua Angrist. A U.S.-based economist won the Nobel prize for economics Monday, Oct. 11, 2021. Canadian-born David Card of the University of California, Berkeley, was awarded one half of the prize for his research on how minimum wage, immigration and education affect the labor market, while the other half was shared by Joshua Angrist from the Massachusetts Institute of Technology and Dutch-born Guido Imbens from Stanford University for their framework for studying issues that can't rely on traditional scientific

methods.Credit: Photo courtesy of the MIT Department of Economics via AP

A U.S.-based economist won the Nobel prize in economics Monday for pioneering research that transformed widely held ideas about the labor force, showing how an increase in the minimum wage doesn't hinder hiring and immigrants don't lower pay for native-born workers. Two others shared the award for developing ways to study these types of societal issues.

Canadian-born David Card of the University of California, Berkeley, was awarded half of the prize for his research on how the minimum wage, immigration and education affect the labor market.

The other half was shared by Joshua Angrist of the Massachusetts Institute of Technology and Dutch-born Guido Imbens of Stanford University for their framework for studying issues that can't rely on traditional scientific methods.

The Royal Swedish Academy of Sciences said the three "completely reshaped empirical work in the economic sciences."

Together, they helped rapidly expand the use of "natural experiments," or studies based on observing real-world data. Such research made economics more applicable to everyday life, provided policymakers with actual evidence on the outcomes of policies, and in time spawned a more popular approach to economics epitomized by the blockbuster bestseller "Freakonomics," by Stephen Dubner and Steven Levitt.

In a study published in 1993, Card looked at what happened to jobs at Burger King, KFC, Wendy's and Roy Rogers when New Jersey raised its minimum wage from $4.25 to $5.05, using restaurants in bordering

eastern Pennsylvania as the control—or comparison—group. Contrary to previous studies, he and his late research partner Alan Krueger found that an increase in the minimum wage had no effect on the number of employees.

Permanent Secretary of the Royal Swedish Academy of Sciences Goran K Hansson, center, announces the 2021 Nobel prize for economics, flanked by members of the Royal Swedish Academy of Sciences Peter Fredriksson, left, and Eva Mork, during a press conference at the Royal Swedish Academy of Sciences, in Stockholm, Sweden, Monday, Oct. 11, 2021. From left on the screen above are the winners David Card of the University of California at Berkeley; Joshua Angrist from the Massachusetts Institute of Technology; and Guido Imbens from Stanford University. Credit: Claudio Bresciani/TT via AP

Card and Krueger's research fundamentally altered economists' views of such policies. As noted by the Economist magazine, in 1992 a survey of the American Economic Association's members found that 79% agreed that a minimum wage law increased unemployment among younger and lower-skilled workers. Those views were largely based on traditional economic notions of supply and demand: If you raise the price of something, you get less of it.

By 2000, however, just 46% of the AEA's members said minimum wage laws increase unemployment, largely because of Card and Krueger.

Their findings sparked interest in further research into why a higher minimum wouldn't reduce employment. One conclusion was that companies are able to pass on the cost of higher wages to customers by raising prices. In other cases, if a company is a major employer in a particular area, it may be able to keep wages particularly low, so that it could afford to pay a higher minimum, when required to do so, without cutting jobs. The higher pay would also attract more applicants, boosting labor supply.

In this photo provided by Stanford University, Guido Imbens poses for a portrait at his home in Stanford, Calif, Monday, Oct. 11, 2021, after learning he shared in winning the Nobel prize in economics. The U.S.-based economist won for pioneering research that transformed widely held ideas about the labor force. Two others shared the award for developing ways to study these types of societal issues. Credit: Andrew Brodhead/Stanford University via AP

Their paper "has shaken up the field at a very fundamental level," said Arindrajit Dube, an economics professor at the University of Massachusetts, Amherst. "And so for that reason, and all the following research that their work ignited, this is a richly deserved award."

Krueger would almost certainly have shared in the award, Dube said, but the economics Nobel isn't given posthumously. Krueger, Imbens said, co-

authored papers with all three winners.

Krueger, who died in 2019 at age 58, taught at Princeton for three decades and was chief Labor Department economist under President Bill Clinton. He also was Obama's chairman of the Council of Economic Advisers.

Card and Krueger's paper made a huge impact on other economists. Lisa Cook, an economics professor at Michigan State University, said their paper was "a revelation" that helped crystallize her thinking for her research on racial violence in the late 19th and early 20th centuries and how it inhibited patent filings by Black Americans.

In this photo provided by Stanford University, Guido Imbens takes a congratulatory call at his home in Stanford, Calif, Monday, Oct. 11, 2021, after

learning he shared in winning the Nobel prize in economics. The U.S.-based economist won for pioneering research that transformed widely held ideas about the labor force. Two others shared the award for developing ways to study these types of societal issues. Credit: Andrew Brodhead/Stanford University via AP

Card's research also found that an influx of immigrants into a city doesn't cost native workers jobs or lower their earnings, though earlier immigrants can be negatively affected.

Card studied the labor market in Miami in the wake of Cuba's sudden decision to let people emigrate in 1980, leading 125,000 people to leave in what became known as the Mariel Boatlift. It resulted in a 7% increase in the city's workforce. By comparing the evolution of wages and employment in four other cities, Card discovered no negative effects for Miami residents with low levels of education. Follow-up work showed that increased immigration can have a positive impact on income for people born in the country.

Angrist and Imbens won their half of the award for working out the methodological issues that allow economists to draw solid conclusions about cause and effect even where they cannot carry out studies according to strict scientific methods.

David Card, winner of the 2021 Nobel Prize in economics, sits in his office in Berkeley, Calif., on Monday, Oct. 11, 2021. Card, a professor at the University of California, Berkeley, received the award for his research on minimum wages and immigration. Credit: AP Photo/Noah Berger

Card's work on the minimum wage is one of the best-known natural experiments in economics. The problem with such experiments is that it can be difficult to isolate cause and effect. For example, if you want to figure out whether an extra year of education will increase a person's income, you cannot simply compare the incomes of adults with one more year of schooling to those without.

That's because there are many other factors that might determine whether those who got an extra year of schooling are able to make more

money. Perhaps they are harder workers or more diligent and would have done better than those without the extra year even if they did not stay in school. These kinds of issues cause economists and other social science researchers to say "correlation doesn't prove causation."

Imbens and Angrist, however, figured out how to isolate the effects of things like an extra year of school. Their methods enabled researchers to draw clearer conclusions about cause and effect, even if they are unable to control who gets things like extra education, the way scientists in a lab can control their experiments.

David Card, winner of the 2021 Nobel Prize in economics, stands for a portrait in Berkeley, Calif., on Monday, Oct. 11, 2021. Card, a professor at the University of California, Berkeley, received the award for his research on minimum wages and immigration. Credit: AP Photo/Noah Berger

Imbens, in one paper, used a survey of lottery winners to evaluate the impact of a government-provided basic income, which has been proposed by left-leaning politicians in the U.S. and Europe. He found that a prize of $15,000 a year did not have much effect on a person's likelihood to work.

Card said he thought the voice message that came in at 2 a.m. from someone from Sweden was a prank until he saw the number on his phone really was from Sweden.

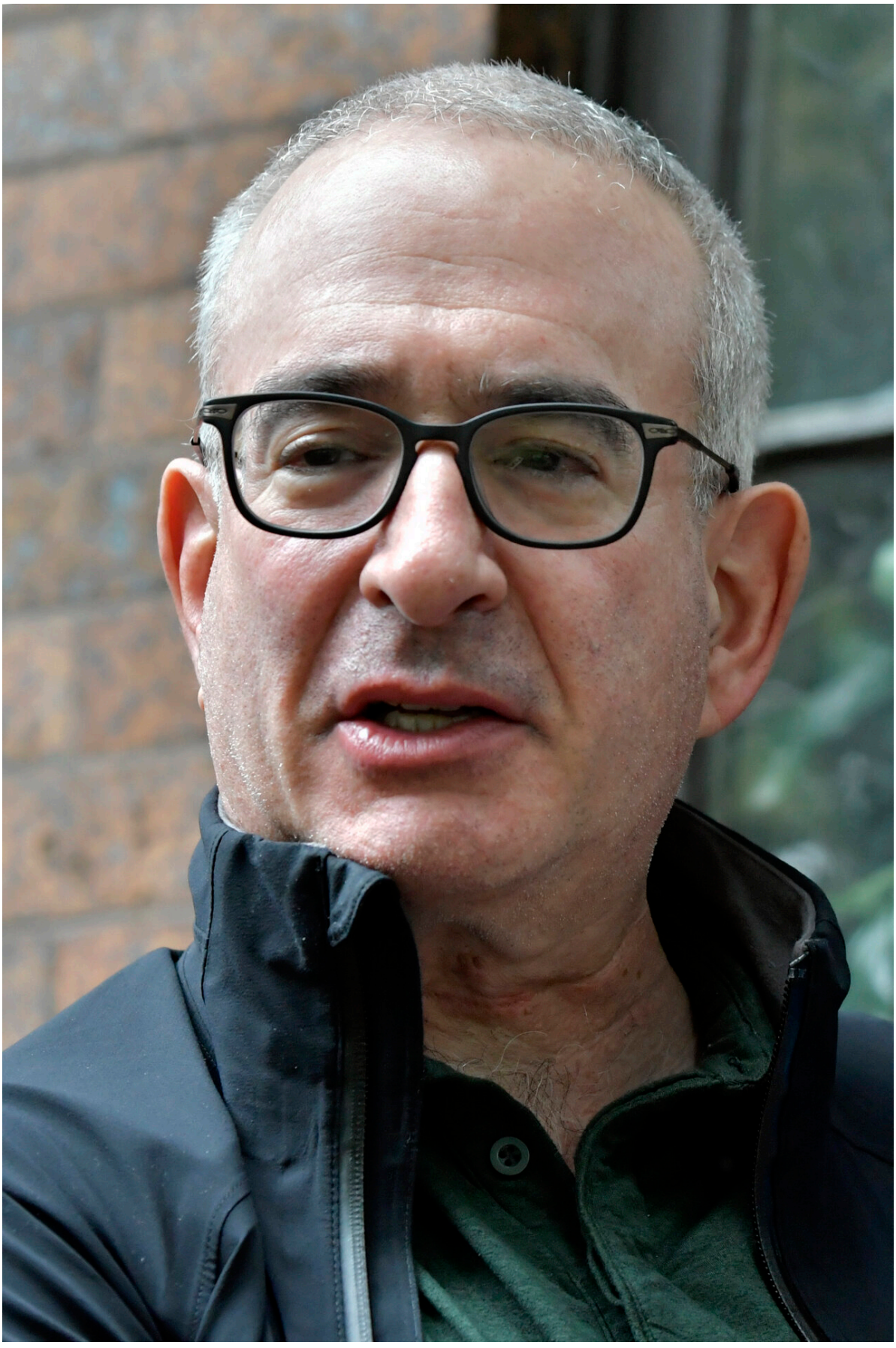
He said he and his co-author Kreuger faced disbelief from other economists about their findings. "At the time, the conclusions were somewhat controversial. Quite a few economists were skeptical of our results," he said.

Imbens' wife, Susan Athey, is also an economist and president-elect of the AEA, and Imbens said they sometimes argue about economics in front of their three children.

Winner of the Nobel prize for economics Joshua Angrist arrives at his home Monday, Oct. 11, 2021, in Brookline, Mass. Angrist, of the Massachusetts Institute of Technology, shared the prize with David Card of the University of California at Berkeley and Guido Imbens from Stanford University. Angrist and Imbens won for their work on methods that allow economists to draw conclusions about cause and effect where studies cannot be carried out according to strict scientific methods. Credit: AP Photo/Josh Reynolds

David Card, winner of the 2021 Nobel Prize in economics, walks through University of California, Berkeley campus in Berkeley, Calif., on Monday, Oct. 11, 2021. Card received the award for his research on minimum wages and immigration. Credit: AP Photo/Noah Berger

Winner of the Nobel prize for economics Joshua Angrist speaks to a reporter with his granddaughter Bella, and wife Mira Angrist, a professor of Hebrew at Boston University, from his home Monday, Oct. 11, 2021, in Brookline, Mass. Angrist, a professor at the Massachusetts Institute of Technology, shared the prize with David Card of the University of California at Berkeley and Guido Imbens from Stanford University. Angrist and Imbens won for their work on methods that allow economists to draw conclusions about cause and effect where studies cannot be carried out according to strict scientific methods. Credit: AP Photo/Josh Reynolds



Winner of the Nobel prize for economics Joshua Angrist speaks to reporters at his home Monday, Oct. 11, 2021, in Brookline, Mass. Angrist, of the Massachusetts Institute of Technology, shared the prize with David Card of the University of California at Berkeley and Guido Imbens from Stanford University. Angrist and Imbens won for their work on methods that allow economists to draw conclusions about cause and effect where studies cannot be carried out according to strict scientific methods. Credit: AP Photo/Josh Reynolds

"This means, I hope, they'll learn that they need to listen to me a little bit more," he said. "I'm afraid it probably won't work out that way."

At home in Brookline, Massachusetts, Angrist said: "I can hardly believe it. It's only been a few hours and I am still trying to absorb it."

He also missed the call from Nobel officials and awoke to a torrent of texts from friends. Fortunately, he said, he knew enough other Nobel Laureates that he got a callback number from them.

As a youth, Angrist dropped out of a master's program in economics at Hebrew University in Israel, although he did meet his future wife, Mira, there. He has dual U.S. and Israeli citizenship.

"I did have sort of a winding road," he said. "I wasn't a precocious high school student."

The award comes with a gold medal and 10 million Swedish kronor (over $1.14 million).

Unlike the other Nobel prizes, the economics award wasn't established in

the will of Alfred Nobel but by the Swedish central bank in his memory in 1968, with the first winner selected a year later. It is the last prize announced each year.

More information: www.nobelprize.org/prizes/econ … iences/2021/summary/

© 2021 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed without permission.

Citation: 3 US-based economists win Nobel for research on wages, jobs (2021, October 11) retrieved 23 April 2024 from https://phys.org/news/2021-10-us-based-economists-nobel-prize-societal.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.