



Award Statement

Prize Winners 2006

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Award Statement of the IZA Prize Committee

The IZA Prize in Labor Economics 2006 is awarded to the outstanding and highly productive U.S. labor economists David Card (University of California, Berkeley) and Alan Krueger (Princeton University). Their work has crucially shaped the research agenda in labor economics and has certainly raised the standards for empirical research in applied economics. Their studies are directed towards the analysis of policy-relevant issues, and their research findings continue to have a substantial impact on the debate of labor market policy and education policy around the globe. David Card and Alan Krueger have become a leading authority with regard to policy advice based on sound econometric research.

Card and Krueger share an instinct for finding the right kind of exogenous variation and collecting the relevant data from which reliable inferences can be drawn. With a remarkable sense for using the appropriate dose of sophisticated econometric techniques, they have unearthed intriguing facts from existing data or from appropriate natural experiments that would have otherwise remained in obscurity. Many of their findings spurred substantial debates and inspired much subsequent work. Often challenging the conventional views of the profession, their surprising new results were at times received with skepticism and critical distance. But David Card and Alan Krueger convinced many skeptics by their in-depth analyses that are based on carefully designed research strategies and reflect their expert knowledge on the details of the data they use. Card and Krueger's work abounds with key methodological contributions on instrumental variable estimation, measurement error, regression-discontinuity methods, or the use of "natural experiments". Card and Krueger have greatly promoted the quasi-experimental approach to causal modeling as a transparent scientific methodology. Their studies, which contain several brilliant examples of "natural experiments," have fueled the quest for and the use of natural experiments in a large economics literature that followed.

Their research centers on estimating the effects of schooling and institutional factors on labor market outcomes. Jointly, individually, and with various co-authors, they have made several seminal contributions that have greatly advanced our understanding of the factors that determine the wage structure and shape inequality. Krueger's article with Lawrence Summers on inter-industry wage differentials, which is still one of the most widely cited works in labor economics, indicated that part of the observed inter-industry wage differentials reflects noncompetitive rents. Since the start of his career, Alan Krueger has recognized the importance of institutions such as unions, work councils, and implicit contracts for labor market outcomes and argued that employment relationships are too complex to be adequately described in the traditional competitive framework. Similarly, David Card's work on unions and collective bargaining highlights the impact of institutions on the determination of wages, employment, and consequently inequality. He showed, for example, that unions compress wage distributions by raising wages of workers with lower observed skills disproportionately, carefully taking account of measurement error in reported union status and the possibility that better workers select into unionized jobs. In other influential work on the effects of immigration on wages and employment of natives, Card showed that immigration has virtually no adverse effects on the labor market prospects of less-skilled workers. In a famous study, Card creatively exploits a sudden large-scale immigration of Cubans to Miami as a natural experiment. The influx of Cubans known as the Mariel boat lift increased supply in the Miami labor market by about 7 percent between May and September 1980 but was unrelated to local labor market conditions. By comparing labor market outcomes in Miami to those of various other similar cities, Card answers the counterfactual question of how wages and unemployment would have been in the Miami labor market if the immigrants had not come.

David Card and Alan Krueger have much advanced the human capital literature. Several other well-known studies, which Alan Krueger co-authored with various scholars, develop innovative estimation techniques, propose novel instruments, or exploit unique data sets in order to get unbiased estimates of the returns to schooling. David Card ingeniously structured the literature by formulating a general model that sheds light on the econometric issues involved in the estimation of the returns to schooling when schooling decisions are endogenous. In earlier work he had devised an econometric methodology together with Thomas Lemieux, which makes it possible to evaluate the extent to which changes in returns to observed and unobserved skills can account for changes in wage differentials.

In a sequence of joint studies, Card and Krueger have assessed how school quality determines labor market outcomes. While the previous literature had provided ambiguous results and concluded that there is no relation between school quality and test scores, Card and Krueger shifted the discussion away from student achievement tests to labor market outcomes. Their studies have structured the way we should think about the effects of improvements in schooling quality and how we should assess its impact econometrically. Evaluating various dimensions and measures of school quality, such as student-teacher ratios, average term length, or annual teacher pay, they documented evidence for a causal positive relation between the quality of schooling and economic returns to education. They provided evidence that those who were educated in states with better school quality enjoyed higher returns to their educational investments later in their lives. Krueger's subsequent studies on the effects of class size and on the returns to attending a more selective college substantiate these results. Their work on schooling quality impressively highlights the role of human capital policy for reducing inequality.

Card and Krueger's joint work on the economics of the minimum wage reflects their originality and style of doing empirical research. It is also a prime example of their impact on the economics profession and on the political debate, as it demonstrates how their controversial research findings shook mainstream economics and instigated heated debates among economists and policymakers. As is true for most of their work, their studies on the effects of the minimum wage have inspired much subsequent research that has eventually led to a better understanding of the functioning of labor markets.

In a sequence of studies, which are collected in their book *Myth and Measurement: The New Economics of the Minimum Wage*, they assembled empirical evidence from various labor markets, different periods, and different states showing no indication that higher minimum wages – contrary to the predictions of the traditional labor market model – reduce employment in the US. In one of their most famous joint studies, they surveyed 410 fast-food restaurants in New Jersey and Pennsylvania before and after the minimum wage was raised by about 20 percent in New Jersey, but not in its neighboring state. By comparing outcomes before and after the policy change within and across states, they evaluate the effects of the minimum wage change. This excellent example of using “natural experiments” to make causal inferences illustrates the power of the quasi-experimental approach as a transparent empirical strategy in labor economics. This has inspired original data collection and the search for exogenous variation generated by natural experiments in a large economics literature that followed.

The influence of Card and Krueger's work is also felt in many other fields of economic science. Their style of doing empirical research has become a role model for research methodology across the economics profession. The IZA Prize 2006 honors the work of two scholars who have given great momentum and research spirit to the field.



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