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Trio Share Economics Prize

Nobel Goes to Professors Who Help Explain Why Joblessness Remains High Now

By JUSTIN LAHART

Three academics who developed groundbreaking ideas that help explain why unemployment remains stubbornly high in the U.S. and other developed countries won this year's Nobel Prize in economics.

Peter Diamond—whose nomination by President Barack Obama to a spot on the Federal Reserve Board has been held up by Republicans questioning his qualifications—shared the award Monday with Dale Mortensen and Christopher Pissarides.

Peter Diamond, Dale Mortensen and Christopher Pissarides won the 2010 Nobel economics prize for developing theories that help explain how economic policies affect unemployment. Justin Lahart and David Weidner discuss. Also, Jonathan Cheng discusses why the recent stock rally has left bank shares behind.

The trio pioneered research into the difficulties buyers and sellers often face in finding each other in the marketplace—and in particular, how that applies in the job market, where the buyers and sellers are employers and workers. This "search theory" has since been applied to a host of other topics, from the housing market to the search for a spouse.

"This is a good prize—these guys figured out a way of thinking about the labor market that we didn't have before," said International Monetary Fund chief economist Olivier Blanchard, who has worked extensively with Mr. Diamond and has also worked with Mr. Pissarides, who teaches at the London School of Economics.

Stockholm University economist Per Krussell, a member of the Nobel selection committee, said the decision to award the prize wasn't related to the weak job-market conditions today. Nevertheless, the three men's work lies at the center of a hotly contested debate over how much of today's high unemployment is the result of structural changes in the labor market and how much is merely the result of a weak economy. One of the quirks of today's high unemployment in the U.S. is that it has persisted despite an increase in the number of job openings.

The research by the three economists concluded high unemployment can be the result of "friction," which keeps employers and workers apart. That friction can be tough regulatory rules on firing, or the lack of appropriate skills among the unemployed, among other things.

The research has also focused on unemployment insurance, with one conclusion being that more generous benefits give rise to higher unemployment—because workers spend more time looking.

This ultimately is a benefit to the economy, however, because it leads to workers landing jobs that better use their capabilities.

In a conference call with reporters, Mr. Mortensen, 71 years old, of Northwestern University, said that in today's difficult economic climate, he doubted that unemployment insurance was much of a factor in high unemployment now. "I really don't think this is a time to worry about that all that much," he said.

Mr. Diamond, 70, who teaches at Massachusetts Institute of Technology, first began to look at how buyers' and sellers' search for one another might affect a market as a young professor in the late 1960s. But it wasn't until he saw related research from Mr. Mortensen that the theory started falling in place. "Then I was really off and running," he said.

While Mr. Diamond was at first primarily concerned with modeling how friction works, Mr. Mortensen and Mr. Pissarides, 62, applied the idea to the labor market.

The three economists' work was widely applied to examine the problem of high unemployment in Europe during the 1980s and 1990s. One conclusion was that many of Europe's unemployed had been out of work for so long, and their skills had degraded so much, that they found it far more difficult to find a job.

The U.S. could fall into the same trap, Mr. Diamond said—one reason he believes that policy should be aimed at creating jobs as quickly as possible. "More fiscal stimulus would be the most obvious thing to do," he said, backing a position held by many Democrats.

Mr. Diamond's expertise in the labor market, which is of particular concern in the current economic environment, was noted when he was nominated for the Fed.

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The Senate didn't approve his nomination before lawmakers left to campaign for election. Several Republicans have objected to his candidacy on the grounds that he has limited macroeconomic policy experience.

Senate Banking Chairman Christopher Dodd (D., Conn.) has said he would hold a hearing on Mr. Diamond's nomination when the Senate reconvenes after the November elections.

Jason Furman, deputy director of the White House National Economic Council, used a breakfast speech in Denver Monday to criticize Senate Republicans for holding up the nomination. "My hope is that the minority blocking Peter Diamond's confirmation to the Federal Reserve Board will see that this is still more evidence that he is qualified," he told the National Association for Business Economics.

"While the Nobel Prize for Economics is a significant recognition, the Royal Swedish Academy of Sciences does not determine who is qualified to serve on the Board of Governors," said Sen. Richard Shelby (R., Ala.) in a statement.

Mr. Diamond said Monday he had no plans to withdraw his name from consideration to serve at the central bank.

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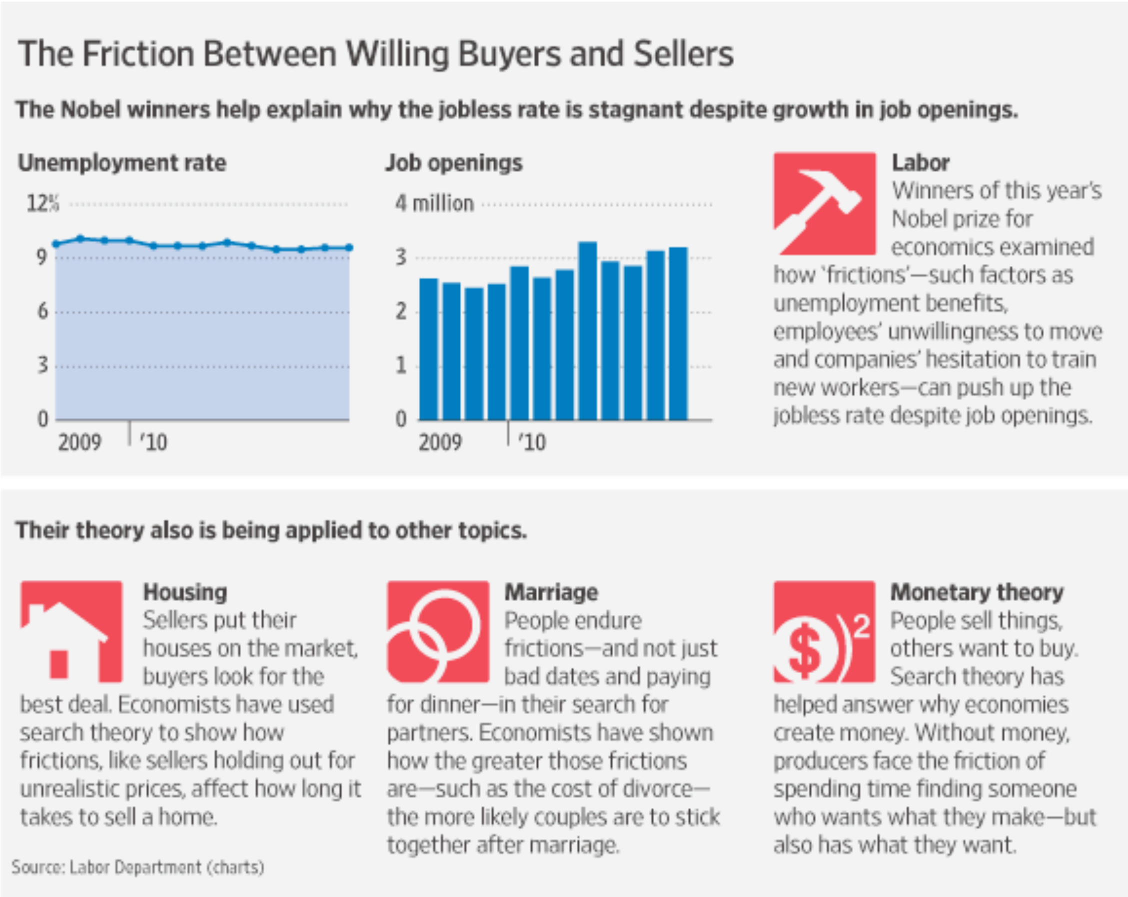
Memory of Alfred Nobel—was established by Sweden's Riksbank in 1968 to mark the central bank's 300th anniversary. The prize is awarded annually for "work of outstanding importance" in the field of economic science, and the winners are selected by the Royal Swedish Academy of Sciences.

The three economists will share a total prize of 10 million Swedish kronor ($1.5 million).



—Michael Crittenden and Charles Duxbury contributed to this article.

Write to Justin Lahart at justin.lahart@wsj.com