



UNEMPLOYMENT AND THE FUTURE OF WORK

Next week's Lindau Meeting on Economic Sciences to explore how the 2010 Nobel Economics Laureates deepened our understanding of labour markets and potential policy responses

Datum | Date
19 August 2011

www.lindau-nobel.org

(Website with programme of the meeting))

With many countries facing the consequences of the most severe recession of the post-war era, the most recent Nobel Prize in Economic Sciences was an award for research on fundamental economic issues that are both at the core of the wellbeing of society at large and very high on the policy agenda of the moment.

The three recipients of the 2010 Economics Prize 'for their analysis of markets with search frictions' – Professors **Peter Diamond**, **Dale Mortensen** and **Christopher Pissarides** – will all be speakers at next week's high-level conference of economics Nobel laureates and top young economists from around the world in Lindau, Germany.

The Fourth Lindau Meeting on Economics Sciences, which will bring together brilliant economists from over 60 countries for a unique dialogue across generations, cultures and scientific backgrounds, will explore the intellectual history of the 2010 prize and its significant impact on policy discussions about unemployment and the future of work.

Most market transactions are characterised by various forms of imperfections or 'frictions'. The importance of these frictions in driving market outcomes is a key issue for understanding such diverse markets as those for a job, a house and a spouse.

While a given market may have buyers and sellers who can in principle agree on a price, this may be insufficient for immediate trade to take place. Both buyers and sellers may need to invest in a costly and time-consuming process of search to locate and assess matching partners, and they eventually need to agree to enter a transaction rather than wait for better trading opportunities.

Search theory provides a versatile framework for understanding market outcomes in a variety of situations in which trade is complex. One key lesson of the theory is that with search frictions, not all markets will clear at all points in time – some buyers and/or sellers remain unmatched.

Council for the
Lindau Nobel Laureate
Meetings

Christian Rapp
Communications
media@lindau-nobel.org

Phone +49 (0)8382 27731-15
Fax +49 (0)8382 27731-13

Press Release
4th Lindau Meeting on Economic Sciences (Germany)



Datum | Date
19 August 2011

www.lindau-nobel.org

(Website with programme
of the meeting))

By far the most influential application of search theory has been to the labour market, and it has led to the development of what is now recognised as the leading model of 'equilibrium unemployment'. The central idea is that trade in the labour market is uncoordinated, time-consuming and costly for both firms and workers. Workers need to spend time and resources to find suitable job opportunities; and firms need to spend time and resources to locate and screen job applicants.

By introducing realistic frictions, the search approach has developed an elegant framework that allows us to explain key stylised facts about the labour market and ultimately think about unemployment and wages in a new light. For example, a direct consequence of frictions is that as markets typically do not clear, unemployed workers and job vacancies may co-exist, even within very narrowly defined labour market segments.

In particular, unemployment persists in equilibrium because before all unemployed workers find new jobs, some of the existing jobs come to an end, providing a new inflow into unemployment. This suggests that after an adverse economic shock, it takes time to bring back unemployment to the pre-shock level. So recovery after a recession may be slow, even once new job opportunities start to emerge.

In his Lindau lecture on 'Search and Macro', **Peter Diamond** will note that at any time, a modern economy has both unemployed workers and posted vacancies. Thinking about this fact in a static setting might lead one to think there is a serious mismatch between workers and jobs, for example, in skills or location. Or it might lead one to think that the primary problem is that wages are not at the right levels to clear the markets, what are called 'sticky wages'.

Professor Diamond will demonstrate how a search perspective puts these two ideas into a richer, more informative context. The quality of matches between workers and jobs matters and limited rates of wage change matter, but understanding the extent and effect of these two issues is best done in a dynamic setting.

In his Lindau lecture on 'The Future of Work in Europe', **Christopher Pissarides** will note that employment in Europe is still behind the targets set by European

Council for the
Lindau Nobel Laureate
Meetings

Christian Rapp
Communications
media@lindau-nobel.org

Phone +49 (0)8382 27731-15
Fax +49 (0)8382 27731-13



Datum | Date
19 August 2011

www.lindau-nobel.org

(Website with programme
of the meeting))

leaders more than ten years ago. Although in some countries the targets of 70% employment rate for men and 60% for women are met, in others they are not likely to be met in the near future, especially for women. Employment rates for the over-55 year old are also too low, compared with the objectives.

With an ageing population and still high unemployment rates, questions arise whether we are entering a new era of low employment rates, high taxes to finance increasingly expensive pensions and high unemployment. Yet when comparing European employment patterns with US patterns, and when looking at trends, it emerges that Europe is still behind America in the creation of jobs in business services and in the health and education sectors.

Professor Pissarides will review work patterns in Europe and compare them both across Europe and with America, and reach conclusions about the type of jobs that can be created in Europe to satisfy the overall employment objectives of the Union.

Notes for editors:

The Nobel Laureate Meetings at Lindau (Germany) will be hosting their fourth meeting on Economic Sciences later this month, 23-27 August 2011.

Journalists are welcome to attend. Information on the meeting, including the programme, is available here:

http://www.lindau-nobel.org/2011_Economics.AxCMS?ActiveID=2241

The meeting will bring together 17 of the 38 living economics laureates with 373 of the brightest young economists from around the world.

The participating laureates are: George Akerlof, Robert Aumann, Peter Diamond, Eric Maskin, Daniel McFadden, James Mirrlees, Dale Mortensen, Robert Mundell, Roger Myerson, John Nash, Edmund Phelps, Christopher Pissarides, Edward Prescott, Myron Scholes, Reinhard Selten, William Sharpe and Joseph Stiglitz.

Council for the
Lindau Nobel Laureate
Meetings

Christian Rapp
Communications
media@lindau-nobel.org

Phone +49 (0)8382 27731-15
Fax +49 (0)8382 27731-13

Press Release |
4th Lindau Meeting on Economic Sciences (Germany)



The young economists come from 65 different countries and 37% of them are women. They have been selected from over 5,000 researchers nominated by an international network of almost 200 academic partners, 44 national central banks, the Bank for International Settlements, the European Central Bank, the International Monetary Fund and the European Bank for Reconstruction and Development.

Datum | Date
19 August 2011

www.lindau-nobel.org

(Website with programme of the meeting))

From their beginning in 1951 as a European initiative of post-war reconciliation, the Nobel Laureate Meetings at Lindau have evolved into an international forum for global issues. The first Meeting on Economic Sciences took place in 2004, followed by meetings in 2006 and 2008. Each meeting brings together brilliant economists to facilitate a unique dialogue across generations, cultures and scientific backgrounds.

Media Contact:

Council for the Lindau Nobel Laureate Meetings

Christian Rapp, Head of Communications

Phone + 49 (0) 8382 277 3115

christian.rapp@lindau-nobel.org or media@lindau-nobel.org

Council for the
Lindau Nobel Laureate
Meetings

Christian Rapp

Communications

media@lindau-nobel.org

Phone +49 (0)8382 27731-15
Fax +49 (0)8382 27731-13