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Award Statement

The IZA Prize in Labor Economics 2003 is awarded to one of the leading labor economists, *Orley C. Ashenfelter* (Joseph Douglas Green 1895 Professor of Economics at Princeton University, New Jersey), for his fundamental contributions to the field.

Ashenfelter's intellectual work stands out due to his ingenuity in devising clever ways to derive and test hypotheses of economic models, his exceptional creativity in using and collecting data, and his originality in pioneering the natural experiment methodology. Setting off the development of methods for empirical tests of labor market models Ashenfelter's scholarly contributions have fundamentally transformed the analysis of labor markets. In a number of seminal articles he has broken new ground in various core areas of labor economics including research on trade unions, wages and employment, the analysis of labor supply, and the study of discrimination, education and training.

Ashenfelter's 1969 *American Economic Review* article with George E. Johnson derived testable implications from a political model of the function of strikes and has inspired much research about the conditions under which labor disputes are likely to occur. His *Quarterly Journal of Economics* article (with John H. Pencavel) provides a powerful quantitative evaluation of the forces that had accounted for the growth of American trade union membership in the period 1900-1960. These early contributions pointed the way ahead for numerous subsequent studies on various aspects of trade unions. His influential 1972 *International Economic Review* article with George E. Johnson, in which they – accentuating the theoretical argument that the extent of unionism, wages, and labor qualities are jointly determined – assessed empirically a static simultaneous equation model of wage determination, marks the beginning of a more sophisticated econometric analysis of the effect of unions on worker wages than had previously emerged. Path breaking was also Ashenfelter's 1974 *Econometrica* paper with James Heckman, which skillfully derives theoretical restrictions on the labor supply functions of spouses in a model of family labor supply and tests them in a neat econometric framework.

Serving as the Director of the Office of Evaluation of the U.S. Department of Labor in 1972, Ashenfelter became the founding father of what has by today developed into the separate field of quantitative social program eval-

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uation. His conviction that empirical analyses have to be credible and simple in order to trigger changes in the social system was the impetus for a rigorous development of econometric tools for quantitative evaluation of social programs. This is reflected in two landmark contributions to the literature on the evaluation of government retraining programs, the 1978 and 1985 *Review of Economics and Statistics* articles. These papers developed methods for longitudinal program evaluation that have become known as the „difference-in-differences“ approach. The earlier article pioneered the exploitation of natural variation produced by the social system to investigate important social questions by elaborating the idea of using a comparison group to assess the effect of training. It also identified the bias in the estimation of the effects of training on program participants that is caused by a drop in earnings of trainees relative to the comparison group, which has become known in the economics literature as „Ashenfelter's dip“. The later paper, which is co-authored with David Card, advanced the natural experiment methodology to partly make up for the lack of experimental data. Apart from expounding new econometric techniques, Ashenfelter has also been a leader in the creative collection of data that are suitable to conclusively answer important economic questions.

The above mentioned achievements are far from representing an exhaustive list of significant scientific contributions. Ashenfelter has enlightened a broader range of topics in labor economics. Many of these contributions are the outcome of fruitful collaborations with former students that he helped train at the Industrial Relations Section at Princeton, of which Ashenfelter was the Director.

Ashenfelter, who has served the labor economics community as former editor of the *American Economic Review* and co-editor of the *Handbook of Labor Economics*, continues to take on important service responsibilities. Currently he is the President of the Society of Labor Economists (SOLE) and editor of the *American Law and Economics Review*.

His scholarly contributions have made Orley Ashenfelter one of the most influential architects of modern labor economics. The IZA Prize in Labor Economics 2003 honors the work of an exceptional scholar who greatly shaped the advance of empirical labor market research.
