



IZA



phone: +49 (228) 3894-0
fax: +49 (228) 3894-180
e-mail: iza@iza.org
web: www.iza.org

Institute for the Study of Labor
Institut zur Zukunft der Arbeit

P.O. Box 7240
53072 Bonn, Germany

President:
Dr. Klaus Zumwinkel
Director:
Prof. Dr. Klaus F. Zimmermann

Award Statement

Prize Winner 2007

Richard B. Freeman

Institute for the Study of Labor
Institut zur Zukunft der Arbeit

phone: +49 (228) 3894-0
fax: +49 (228) 3894-180
e-mail: prize@iza.org
web: www.iza-prize.org

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The IZA Prize in Labor Economics 2007 is awarded to Richard B. Freeman (Herbert S. Ascherman Professor of Economics at Harvard University, Senior Research Fellow at the Centre for Economic Performance and Visiting Professor at the London School of Economics) for his innovative and agenda-setting contributions to the study of labor markets.

Richard Freeman has made several path-breaking contributions in a variety of areas in labor economics that have had a massive influence on the profession. His highly original studies combine theory and empirical research to address important policy-relevant issues. Freeman has advanced our knowledge in fields that had traditionally been studied by labor economists, such as unionism and collective activity in the workplace, labor demand and labor supply, or inequality. He has also shaped modern labor economics by drawing attention to important social problems and new trends, including the analysis of crime, discrimination, the viability of the welfare state, and political participation. By raising questions that would have otherwise remained unaddressed in the economics literature, Freeman has extended the range of issues in which labor economists are interested. He has thereby opened areas of inquiry that have subsequently inspired the research interests of many economists. Freeman's innovative and highly accessible research on these new themes has greatly enriched the scientific debate, and although his work does not necessarily represent the final answer to any of the questions, his first answers have nearly always been proven correct through subsequent work.

His work on the nature of trade unionism is arguably Freeman's most influential research. He has made several fundamental contributions that have revolutionized how labor economists think about the role of trade unions and their behavior. In his numerous studies on the impact of unionism, he has demonstrated that unions perform multiple economically valuable functions beyond altering wages. Freeman has provided evidence that unions have sizable non-wage effects by reducing turnover and absenteeism, fostering loyalty and long-term employment relations, increasing investments in job training, and raising job satisfaction. These ideas remain highly influential even more than two decades after having been recapitulated in the co-authored book with James Medoff titled *What Do Unions Do?*, a milestone in modern labor economics.

In a paper published in 1976, Freeman put forward that union leaders do not only represent workers in wage negotiations, but that unions also provide a direct channel of communication between workers and management. In fact, a key role for unions is to serve as an institution of collective voice, which provides workers with a say in job-related matters and enables them to articulate their interests or discomfort. In a seminal paper, published in the *Quarterly Journal of Economics* in 1980, Freeman provided evidence that unionism reduces quits and permanent job separations and fosters long-term employment relationships. The reduction in labor turnover due to the existence of

unions is likely to lower hiring and training expenses and to increase productivity, since job tenure and incentives to invest in firm-specific, productivity-enhancing skills rise. Unionism is also likely to affect compensation packages, for instance by raising the share of deferred compensation in the total wage bill. In subsequent studies, Freeman has shown that unionism and employee involvement also substantially alter other personnel practices, which considerably improves worker well-being and loyalty to the firm.

Equally important as his work on unions is Richard Freeman's research that pioneered international comparisons of labor markets as a research design for understanding the impacts of institutional factors and policies on labor market performance. His work shows that labor market institutions can have large distributional effects, but that the effects on efficiency are modest and hard to detect, which supports the notion that there is no single ideal set of institutions. His analyses also show that policies that work well in one institutional context might be ineffective in a different environment.

It is evident that this kind of empirical research is highly relevant for the design of economic policies. Therefore it is not surprising that Richard Freeman contributed to the policy debate in the United States and across Europe. Scrutinizing the effectiveness of institutional changes or policies that have been proposed to cure the problem of high unemployment in Europe, he has shown in several instances that popular explanations are, in fact, not the main cause of differential labor market outcomes in Europe and the United States. For example, by comparing wage structures and skill distributions in Germany and the United States, his research shows that the low job creation rate and resulting job deficit in Germany's low-wage service sector is not caused by excessively high German wages. Recently, Freeman has argued that a child-friendly family policy can greatly contribute to boosting employment and economic growth in Germany.

Richard B. Freeman has been among the most active, productive and leading labor economists for more than three decades. As Director of the Labor Studies Program at the National Bureau of Economic Research (NBER) he has set the agenda for a highly influential research program. The IZA Prize in Labor Economics 2007 honors the work of an exceptional scholar who has greatly advanced and inspired the empirical analysis of labor markets.

Handwritten signatures of the IZA Prize Committee members: R. F. Freeman, Richard Potts, George A. Akerlof, and others.