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IZA Prize 2008 goes to British economists Layard and Nickell

Bonn-based Institute for the Study of Labor honours two scholars whose research has strongly influenced labour market reforms in Europe

The Institute for the Study of Labor (IZA) in Bonn, Germany, has selected *Lord Richard Layard* and *Stephen J. Nickell* to receive this year's IZA Prize in Labor Economics. The award honours their path-breaking work on the relationship between labour market institutions and unemployment. Their research provided a theoretical and empirical framework for the analysis of equilibrium unemployment and the impact of labour market institutions on economic performance. According to the award statement, the contributions of Layard and Nickell have illuminated the policy discourse in Europe and increased academics' understanding of the nature and causes of involuntary joblessness. Lord Richard Layard is Emeritus Professor of Economics at the London School of Economics (LSE) and a Labour life peer in the House of Lords. Stephen Nickell is Warden of Nuffield College, University of Oxford, and was previously a Professor of Economics at LSE and a member of the Bank of England Monetary Policy Committee. The IZA Prize Ceremony will take place at the Petersberg Hill near Bonn on 1 December 2008 as part of IZA's 10th anniversary celebrations.

"Richard Layard and Stephen Nickell have not only influenced the recent labour market reforms in the United Kingdom, but they have also greatly stimulated the policy debate in Germany," said IZA Director Klaus F. Zimmermann in his announcement of the prize-winners. The welfare-to-work approach now adopted by many nations draws on the laureates' finding that generous unemployment benefits need not be detrimental if they are granted only for a limited time and are accompanied by adequate instruments that require (and assist) unemployed individuals who are able to work to actively search for a new job. This insight also finds its reflection in the "workfare" model advocated by IZA in Germany.

Other work by Layard and Nickell provides evidence that stricter employment protection regulations do not generally increase the level of unemployment, but increase the persistence of unemployment by reducing short-term unemployment at the cost of raising long-term unemployment. Moreover, they have shed light on the interaction

Head of Public Relations: Holger Hinte
Leiter Öffentlichkeitsarbeit: Holger Hinte

Institute for the Study of Labor
Institut zur Zukunft der Arbeit
Schaumburg-Lippe-Str. 5-9
53113 Bonn, Germany
Phone: +49 (228) 3894-222
Fax: +49 (228) 3894-180
E-Mail: hinte@iza.org
Web: www.iza.org

between wage setting institutions and unemployment. In particular, they were able to show that higher union coverage tends to increase unemployment, but these negative effects of collective wage bargaining can be offset if unions and employers coordinate their wage bargaining activities effectively.

The IZA Prize in Labor Economics will be awarded during a series of events celebrating IZA's 10th anniversary. These include a scientific conference on "Frontiers in Labor Economics" as well as an expert panel discussion on the role of economists in policy advice. Speakers include the renowned Harvard economist Richard Freeman and White House Council of Economic Advisers Chairman Edward Lazear.

IZA is an independent economic research institute supported by the Deutsche Post Foundation. The IZA Prize in Labor Economics has been awarded annually since 2002 for outstanding contributions to the field. Worth 50,000 euros, it is now considered the most prestigious science award in labor economics worldwide.

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E-Mail: iza@iza.org
Web: www.iza.org