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.

“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 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.

Lord Richard Layard was the founder-director of the Centre for Economic Performance, London School of Economics. He is now Programme Director of the Wellbeing Programme at the CEP. He is also Emeritus Professor of Economics at the LSE and a Labour life peer in the House of Lords. Stephen Nickell is an Associate of the Labour Markets Programme at CEP and Warden of Nuffield College, University of Oxford. He 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. Speaking at the event will be White House Council of Economic Advisers Chairman, Edward Lazear and Professor Richard Freeman, Senior Research Fellow at CEP and Harvard economist. Professor Freeman was recipient of the IZA Prize in Labor Economics 2007.

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.