Chris PIssarides

Although Chris PIssarides and I spent the best part of two decades as colleagues at the London School of Economics, I believe our paths first crossed in Cambridge, Massachusetts, in 1980. I was in my first year as a graduate student at the Massachusetts Institute of Technology, on leave from the UK Treasury. Chris was an academic visitor down the road at Harvard University and the National Bureau of Economic Research, on leave from LSE. Being both strangers in a strange land, we immediately hit it off and formed a friendship lasting to the present day.

Three years later, I joined the LSE faculty as a Lecturer just as Chris, by now well established in his career, was promoted to Reader (Associate Professor in the American lexicon); he became a full Professor in 1986. Both of us were heavily involved in Richard Layard's Centre for Labour Economics, a research centre spanning a range of contemporary issues in labour economics, but particularly focussed on understanding the causes of persistently high unemployment – in Europe especially – and devising policies to mitigate it.

At that time, macroeconomic thinking on unemployment was dominated by two contrasting approaches: the Neo-Classical or equilibrium approach, associated with the likes of Chicago's Robert Lucas, which saw unemployment as simply the voluntary withdrawal of labour because the return from working was temporarily depressed; and the Keynesian approach, which pinned the blame on sticky wages and prices. Neither of these stories seemed to provide a persuasive explanation of the persistently high unemployment we could observe in the real world.

The Centre's thinking on this topic came to be dominated by the development by Layard and Steve Nickell of what is sometimes referred to as the 'battle of the mark-ups' model. In this model, excessive unemployment resulted both from temporary stickiness in wages and prices and from the interaction of imperfections in product (imperfect competition) and labour markets (unions, excessively generous unemployment compensation, etc). In so doing it combined features of both the equilibrium and Keynesian approaches. Moreover, stories were devised that explained how current equilibrium levels of unemployment were related to past realisations of actual unemployment ('hysteresis' effects), helping to explain how unemployment could get stuck at high levels.

Chris engaged actively in the debates at the Centre at that time. His own approach though was somewhat different, building on ideas he first explored in his PhD thesis. This recognised that the incomplete information that employers have about potential workers abilities and the incomplete information that workers have about job opportunities created essential frictions in the way the labour market operated. The foundations of this so-called 'search' approach had already been laid in the late 1960s by Ned Phelps and others in an attempt to explain the inverse empirical regularity between unemployment and inflation known as the Phillips Curve. But I think it is fair to say that, at the time, his colleagues at the Centre saw the model as most useful for addressing issues such as the distribution of wages rather than understanding why unemployment was so persistently high.

Chris's first breakthrough was to realise that the analysis of such search models could be greatly facilitated by introducing the concept of a 'matching function', relating the number of successful job matches to the number of unemployed workers looking for jobs and the number of vacancies opened by employers. Although superficially a 'black box', it could be justified by a variety of microeconomic stories. It could be estimated on actual data. And it could be embedded in richer descriptions of the macro-economy than had hitherto been the case. A key insight here was to see how ideas from game theory could be used to determine how the rent resulting from a successful match was split between workers and employers, thus providing a simple but powerful theory of wage determination. In a series of papers in the mid-1980s and in his 1990 book, *Equilibrium Unemployment Theory*, he showed just how rich such a model could be, embedding within it many of the frictions causing unemployment that Layard and Nickell and others at the Centre, including myself were focussing on.

The second big step forward was to come a few years later, in his 1994 paper in the *Review of Economic Studies* with his long-time friend and collaborator Dale Mortensen. The key contribution of this paper was to integrate a model of endogenous job creation and job destruction developed by Mortensen in earlier work into Chris's search and matching approach to the labour market. The result was an immensely rich model that allowed the integrated study of growth, unemployment and fluctuations, including a rigorous analysis of policy options and the associated welfare implications. The 'Mortensen-Pissarides' model is now one of the workhorses of modern macroeconomics, and has been extended and developed by numerous subsequent authors. Chris revised his earlier 1990 book to take account of these developments, and the updated 2000 edition represents one of the core references in the field of macroeconomics. It is for this work that he justifiably was awarded the 2010 Nobel Prize in Economics, together with Mortensen and also Peter Diamond, who had explored similar ideas.

In the middle of this flurry of productive activity, Chris and I shared the teaching duties for macroeconomics, at both the undergraduate and graduate levels. The intermediate undergraduate course was a particularly large course, with several hundred students enrolled. By the 1990s, it had outgrown all of the School's regular lecture theatres and we were delivering the lectures in the Peacock Theatre, which doubled as an LSE lecture theatre during the day and a regular theatre at night, hosting contemporary dance troupes, as well as children's shows such as 'The Snowman' at Christmas time. There are probably not many Nobel prize winners who can say that they have shared a stage with such acts!

Chris served as Convener (Chairman) of the LSE Economics Department from 1996 to 1999. As I found out when I succeeded him, keeping 50 sometimes unruly and independent academics in order is not the easiest of tasks, but Chris managed it better than most. Our paths have, though, crossed less often in recent years, as I left LSE in 2000 to join the Bank of England.

Chris's unassuming style and easy approachability always made him a favourite with students, and over the years he has supervised an unusually large number of PhD students, with much care and attention. I had occasion to be back at LSE shortly after his Nobel prize was announced and naturally dropped by his office to give my congratulations. Chris was away unfortunately, but his office door was a mass of multi-coloured Post-It notes carrying messages of congratulations from students, both graduate and undergraduate. That represents as good a testament as any to the affection in which he is held by colleagues and students alike.

Charlie Bean
(Faculty, London School of Economics, 1982-2000;
Chief Economist and subsequently Deputy Governor, Bank of England, 2000-present)