

# Working with Chris Pissarides

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Chris tells me that we first met at the University of Essex during my first sabbatical year in 1970-1971. I was a visiting scholar working on a research project with my Northwestern colleague, Frank Brechling, who was a visiting faculty member. Chris was an undergraduate at Essex contemplating graduate work at that time. My first two major published works on job search, one in the Phelps volume (Mortensen 1970a) and the second in the *American Economic Review* (Mortensen 1970b), had just appeared. So as an expert in the field, he apparently asked me what I thought about the future of the subject. Although I don't recall now our meeting, he claims that I strongly recommended that he pursue search theory during his PhD studies at LSE. If I did, it was obviously one of the best pieces of advice that I gave any student.

Later Ken Burdett, during his first spell at the University of Essex, sent me a copy of Chris' PhD thesis and recommended that I read it. Although I don't remember all the details, I do recall that it represented frontier research with some new and interesting thoughts about how to apply search theory to the study of unemployment in an equilibrium macro economics context. Of course, what followed was a series of path breaking articles designed to develop an equilibrium model of unemployment, specifically Pissarides (1979, 1984a,b, 1985a). At about the same time, Peter Diamond and I were independently working on the topic, research that was published as Diamond and Maskin (1979), Diamond (1982a,b) and Mortensen (1978, 1982a,b). Although Peter and I were communicating with each other, I did not officially meet Chris until the October 1983 when we both attended a labor economics workshop at LSE.

The first edition of Chris' book *Equilibrium Unemployment* (Pissarides 1990) marks the beginning of the period during which the idea of a two sided equilibrium search model that could account for important stylized facts about the level and dynamics of unemployment were communicated to the economics profession as whole. Not that the adoption of the approach as the principal way to think about aggregate labor phenomena happened over night. However, the book clearly and simply laid out a synthesis of the work of Peter, Chris and me in the form of a very simple and compelling model of equilibrium in a labor market in which time and resources are consumed in the process of creating job-worker matches. Shortly after its publication, I wrote a review of the book for the *Journal of Monetary Economics* (Mortensen 1992) which contrasted it with the neo-classical approach that then dominated thought at least in the "fresh water" school of macroeconomics. In recommending the book I suggested that its approach was superior to the alternative in several important ways but needed further research. In particular, the model was overly dependent on a simple specification of the bargaining outcome and was focused solely on the duration of unemployment as the source of unemployment fluctuations.

About this time, Chris was spending a year visiting the University of California at Berkeley. I took the opportunity to ask him to give a lecture and to spend several days discussing our common research interests. During that week at Northwestern we found that there were several topics for collaboration. First and foremost, we both agreed that a major extension of his model that allowed for endogenous job separation was needed. The need was clearly illustrated by the early work of Davis and Haltiwanger (1998) on job creation and job destruction that pointed to the importance of the latter in understanding the unemployment dynamics during the US recessions in the 1980s. As I recall, I pulled out a draft of a paper that I had started on the problem some time earlier which viewed job destruction as a rational response to what we now call idiosyncratic shocks to match productivity. We quickly realized that by adding an aggregate shock as well, one could rationalize the data on job destruction. The result was our first joint paper “Job Creation, Job Destruction and the Theory of Unemployment” (*Review of Economic Studies*, 1994). As the content of the paper was integrated into the MIT press (2d) edition of *Equilibrium Unemployment* (Pissarides 2000), many now regard this paper as containing the “canonical” Mortensen-Pissarides model of equilibrium unemployment. Personally, I think the paper and the new edition of the book convinced the profession of the value of the search approach to aggregate labor economic analysis once and for all.

In the ten years from 1993 to 1994, we jointly published eight papers. Three of these dealt with the presentation and dynamic extension of the Mortensen-Pissarides model (Mortensen and Pissarides 1993, 1994a, 1994b), one with the implication of the new innovation for unemployment (Mortensen and Pissarides 1998), and two more that applied the model to the unemployment effects of skill biased technology shocks and wage subsidies to the unskilled respectively. (Mortensen and Pissarides 1999c and 2003). We were also asked to contribute to new volumes of both the *Handbook of Macro Economics* and the *Handbook of Labor Economics* (Mortensen and Pissarides 1999a, 1999b) on unemployment and reallocation theory. Obviously, this was a very productive period for both of us. As the more mobile of the two (Chris had a young family at the time while I was an empty nester by then), I enjoyed my several trips to London to work on these projects immensely and to develop a close friendship with Chris and his family.

In the last decade, our research has taken us in different but somewhat related directions. Among other topics, Chris has worked on the long run process of resource reallocation from manufacturing to services induced by differential rates of productivity growth in the two sectors. My research has been inspired by the firm heterogeneity in productivity and wages paid revealed in micro firm and matched employer employee data and the cross firm reallocation that these differences generate.

The decade also brought awards for our past work. We were jointly honored in 2005 with the IZA Prize in Labor Economics. Recently, we published a collection of reprints of our early articles in *Search, Matching, Wage Dispersion, and Unemployment* (Mortensen and Pissarides 2011) in the IZA Prize Series which includes original commentary on the origins of the flow approach to labor market analysis and a discussion of the direction of current and future research on search theory and its applications to the labor market. We started this project during a two week residency at the beautiful Rockefeller Foundation Bellagio Center on Lake Como in the summer of 2007. A number of other individual awards followed for both of us. The last was the big one, the 2010 Nobel Prize in Economics Sciences, which included Peter Diamond as well as Chris

and me. These occasions have been wonderful opportunities to recall our work together and to enjoy our friendship. I look forward of many get-togethers in the years ahead even though they will not be as grand as the December week we experienced in Stockholm.

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