

ABOUT CHRISTOPHER PISSARIDES

Robert Solow

The Diamond-Mortensen-Pissarides search-and-matching model of the labor market is certainly an outstanding achievement in the economics of the past 40 years. It deserves the accolade bestowed on its key authors in the form of the Nobel Prize in Economics for 2010. The name of Christopher Pissarides comes last in the DMP label, but only by virtue of its position in the Latin (and Greek) alphabet. His particular contribution to the search-and-matching model, summed up in his paradigmatic book (1990, 2000), is marked by a characteristic that particularly appeals to me: the ability—and the willingness—to find a neat, simple, comprehensible way to formulate the basic intuitions of the theory. This kind of clarity makes it possible to see the useful directions in which the theory can be completed and extended. This thought leads me to make a couple of brief comments based on the Pissarides way of thinking about the labor market.

Plainly Greek readers will be acutely aware that the current dangerously high unemployment rate in their country can not be the consequence of some sudden worsening of the ability of Greek workers to match their personal skills and other characteristics to those required by available job vacancies. Of course this is just as obvious to Professor Pissarides. He knows perfectly well that the demand for labor is derived from the demand for goods. Today's Greek unemployment arises from the drastic reduction in aggregate demand imposed by austerity measures, both internally and externally imposed, combined with the fact that Greek labor costs have exceeded what Greek productivity can support.

The DMP theory is a theory of labor-market equilibrium, and the European and American labor markets are not now in equilibrium. No one is more aware than Professor Pissarides that the DMP theory would gain in scope from being connected to the rest of the economy, and to a model of the rest of the economy that pays careful attention to disturbances and distortions like those that are now upon us all. The matching function, the key mechanism of the theory, is, as he has argued, a black box. And the contents of the box, especially the vacancy rate, are themselves black boxes. The theory tells us that a job (or vacancy) is created when it has positive future value to the firm creating it. Now there is a black box that badly needs opening up, and I hope and suspect that Professor Pissarides is already prying at it. No one is better qualified than he and his colleagues to move us further along the road to abstract understanding and practical policy.