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## **Christopher A. Pissarides [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

Christopher A. Pissarides is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills the [September 2013 issue of \*Econ Journal Watch\*](#).

### **Keywords**

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

### **JEL classification**

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[http://econjwatch.org/file\\_download/760/PissaridesIPEL.pdf](http://econjwatch.org/file_download/760/PissaridesIPEL.pdf)

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## Christopher A. Pissarides

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Born in Cyprus, Christopher Pissarides (1948–) grew up in a relatively well-off family in a mostly rural community. Pissarides discussed his decision to study economics: “Like many well-off Cypriots, I went to London to study for a degree in economics. I wanted to study architecture, but because of my father’s business my parents persuaded me to try economics or accounting. My love at school was mathematics, but it was not considered to be a good profession for a young man, with which I agreed. When I tried economics I liked it, so I decided to pursue my studies in it” (Pissarides 2011a).

One event that changed Pissarides’s life was the student protests that erupted in the late 1960s at Essex. Pissarides reflected: “In the late 1960s, when I was an undergraduate student, Essex became active in the student uprisings that characterised the times. In 1968 student political activity became particularly intense, and although I was never very active, the liberal attitudes of the time had a lasting

influence on me. I remember the Vietnam war and the assassinations of Robert Kennedy and Martin Luther King as particularly dramatic events that affected our political outlook” (Pissarides 2011a).

He earned his bachelor’s and master’s degrees in economics from the University of Essex, and his Ph.D. in economics from the London School of Economics. After serving at the Central Bank of Cyprus, Pissarides accepted a position at LSE, where he has been since 1986. Upon graduating, he began working on the problem of unemployment. Pissarides shared the Nobel Prize in 2010 with Peter Diamond and Dale Mortensen “for their analysis of markets with search frictions.”

Pissarides has drawn out policy implications of his work. He once found that “tax-financed subsidies reduce wages and raise employment and vacancies, whereas tax-financed unemployment benefits raise wages and reduce employment and vacancies” (Pissarides 1985, 121). In a 1990 paper, he and Ian McMaster concluded that “a regional policy that moved jobs to depressed areas—in contrast to relying on the movement of people to jobs—could save society considerable adjustment costs” (Pissarides and McMaster 1990, 828).

In a 2008 paper on welfare, Pissarides and Rachel Ngai wrote:

We have shown that in a representative sample of countries the Anglo-Saxon welfare policies of limited transfers and encouragement of market participation lead to more employment overall, especially when compared to the continental European policy of encouraging the family to look after dependents at home, through a more extensive unconditional system of social transfers. (Ngai and Pissarides 2008, 433-434)

They continued:

Ultimately the question is how does a country choose to support lower incomes? Anglo-Saxon policies encourage all market activity but Scandinavian policies encourage more low-skill activity. They both help lower-skill workers through the market but Scandinavian policies help them more through a system of subsidies. In this respect continental transfer policies are the least efficient because they push low-skill work to the home and support low income with cash transfers, which are both distortionary and reduce the tax base. (Ngai and Pissarides 2008, 435)

Pissarides spoke strongly about the 2013 financial collapse in his home country. He criticized Germany for “bullying,” and said that rather than punish

all Cyprus banks for the errors of two, there should be more monitoring and regulation (Pissarides 2013a). He opposed taxes on depositors (Pissarides 2013a) and opposed the bank bailouts: “Prudent bankers attracted depositors by following low-risk strategies. But now their depositors are asked to pay for the high-risk strategies of other bankers. High-risk bankers risked their depositors’ money. But their depositors will not lose more than the depositors of other banks. This is the logic of the Cyprus ‘bailout’ by the International Monetary Fund, the German-led Euro group and the European Central Bank. Delinquent bankers’ losses are protected by prudent bankers’ gains” (Pissarides 2013b).

Speaking in 2010 on UK policy, Pissarides called for a more gradual reduction of the budget, considering the enacted cuts “a little too fast” (quoted in Blackden 2010). The next year, Pissarides addressed himself to Chancellor of the Exchequer George Osborne in an open letter:

I know you worry about the deficit but I think you worry about it too much. Keynesianism of the kind that guided policy after the Second World War no longer works, but there are still lessons in it for us. Worrying too much about the deficit in a recession makes the recession worse. . . . Let me emphasise that we *do* need a plan for deficit reduction. But it does not have to start so soon—when the economy is still in recession—go so deep and be so inflexible. Your approach to deficit reduction reminds me of Margaret Thatcher’s approach to reducing inflation. She was right to be worried about it, and the reforms that she introduced were badly needed. But she squeezed the economy so much, in such a short period of time, that she caused a severe—and unnecessary—recession. It took almost ten years for unemployment to recover. I fear that the way you are squeezing the economy now will have similar consequences. It will slow down the recovery and may even cause a double-dip recession. (Pissarides 2011b, 23)

In 2011, Pissarides called for a reduction in employer taxation and regulation across the EU:

Why are Europeans not creating enough jobs in these sectors [health, retailing and a general “business services” sector that includes accountants, management consultants and expert advisers]? Take retailing. Most people who have been shopping in the United States know that it is a lot easier to get assistance in American shops than European ones. Economists attribute these differences to taxation and regulations that

make employing retail assistants more expensive in Europe, combined with the fact that there is an alternative to employing more assistants: self-help. (Pissarides 2011c)

He also spoke to matters of employment in the healthcare sector:

But the biggest growth in the gap between the United States and the eurozone is also the most controversial. Employment in health has grown much faster in the United States than in Europe, even though the European population is ageing faster than the American one. Why is that?

The jobs in the American health sector are not only in medical services but also in care, for both young children and older people. But the cost of these services has also risen enormously. Is the reason that we are not creating enough jobs in healthcare services in Europe the fact that we are not allowing costs to rise faster? I would like to think that this is not the reason.

In Europe, we have a more caring social system supported by public policy, and much of the cost of education and healthcare is borne by the state. Demand for these services, especially for health, will increase in the future, partly because of our ageing populations, but also because with rising living standards we expect better personal services and better healthcare.

How can our governments meet the costs of these services? The United States has shown one way: by allowing costs to increase and letting the private sector take the initiative. Sweden and the other Scandinavian countries have shown another way: by increasing taxes and using the revenue to subsidise jobs in healthcare. (Pissarides 2011c)

In 2012, Pissarides wrote that “Europe is sinking itself deeper into recession with its austerity politics” (Pissarides 2012), and he called for fiscal austerity to be “imposed gradually as the economy starts reviving” (quoted in Ryan 2012). In 2013, Pissarides declared: “Austerity is the cause of unemployment. We should cast austerity aside” (quoted in ANA-MPA 2013). He called for particular government intervention “to counter youth unemployment” (ibid.).

Comparatively, he found the United States to be on the road to recovery, thanks to job-creation policies. While cautious about rising debt in the United States, Pissarides was optimistic about President Barack Obama’s ability to tackle it. He saw Obama as a model for European leaders: “And unlike us, he seems to

be doing it the right way, waiting for the economy to show firm signs of recovery before hitting it with cuts” (Pissarides 2012).

In a 2013 paper in *Economica*, Pissarides wrote:

An obvious lesson from the experience with fiscal austerity and reforms is that it is difficult to get the timing right in order to avoid a deep recession. Fiscal austerity has an immediate negative impact on the economy because it operates through aggregate demand, which penetrates all sectors of the economy. Structural reforms eventually have a positive impact, but this positive impact comes in through supply-side changes that improve productivity and the incentives to hire labour. Supply-side changes always take longer to have an impact on aggregate economic activity, as they might involve things like the replacement of old equipment with new, the closure of some firms and the opening of others, and the shedding of labour in some establishments and the creation of jobs in others. In the short term there might even be a negative impact of the reforms as the first reaction of employers is likely to be to get rid of labour before they have enough confidence to start new job creation. Something like this has been discussed in the literature since at least Joseph Schumpeter’s “creative destruction,” which moves the economy to recession through the destruction of old unproductive capital giving the incentives to entrepreneurs to create new jobs to fill the gap. (Pissarides 2013c, 402)

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## Edward C. Prescott

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Edward Prescott (1940–) was born in upstate New York to German immigrant parents. His mathematical inclinations and lessons in business from his father prepared him to be an economist (Prescott 2005). Ideologically, Prescott says that in high school he was a Fabian socialist but in college changed his views. He now tends toward support of "individual responsibility and decentralized arrangements" as opposed to "paternalistic statism" (Prescott 2013).

Prescott began his college education at Swarthmore College with dreams of being a rocket scientist: "It was the Sputnik era... This dream led me to major in physics for my first three years" (Prescott 2009, 370). Prescott wrote of his college experience in his Nobel autobiography: "What disappointed me about Swarthmore was the dearth of intellectual discourse. Fellow students spent much of their time memorizing, rather than thinking and figuring things out. Nearly all were too ideological to carry on an intellectual discussion. I could always predict what they would say. How anyone could defend the killing of tens of millions by Stalin and