

Alan Krueger, a friend and a source of inspiration for the OECD

by Laurence Boone, OECD Chief Economist, Giuseppe Nicoletti, Head of Division and Cyrille Schwellnus, Senior Economist, OECD Economics Department



A great economist, Alan Krueger, left us and the OECD Economics Department has lost a friend and a source of inspiration. Alan, a Princeton economist and former Chairman of the US Council of Economic Advisors, strongly influenced our thinking by spearheading a more evidence-based approach to economic policy-making both in his academic writings and as the Chairman of the OECD's Economic Policy Committee during 2012-13.

One area in which Alan's academic work contributed to a rethink of the OECD's policy advice is the minimum wage. The original OECD Jobs Strategy of 1994 stated that minimum wages often "end up damaging employment opportunities for unskilled labour". The wave of empirical studies sparked by Alan's 1993 study with David Card on the employment effects of minimum wages contributed to the more nuanced view in the Jobs Strategy of 2006 that "a moderate legal minimum wage

generally does not undermine employment” and the explicit recommendation in the new 2018 Jobs Strategy to “consider using a statutory minimum wage set at a moderate level as a tool to raise wages at the bottom of the wage ladder, while avoiding that it prices low-skilled workers out of jobs”. In their study, Alan and David Card use the “natural experiment” of a moderate minimum wage increase in New Jersey in 1992, showing that it had no effect on employment growth in fast-food restaurants relative to neighbouring Pennsylvania where minimum wages had remained unchanged at previous New Jersey levels.

Beyond triggering a rethink of the OECD’s policy advice, Alan’s approach of using individual-level data, “natural experiments” of policy reforms and differences in pre- and post-reform developments in reformed and non-reformed areas contributed to a paradigm shift in the way the OECD conducts empirical research. Classical studies such his study with Joshua Angrist using the quarter of birth as an instrumental variable for years of schooling to estimate returns to education or the estimation of the effect of class size on student performance using experimental data demonstrated the limitations of existing research on these long-standing and highly policy-relevant questions. Today, much OECD research is based

on individual-level
data and research designs inspired by these papers.

Alan's work also sparked entire work programmes at the OECD.
His 1997

study with Joern-Steffen Pischke on the US employment miracle
suggested

that higher labour market flexibility compared with European
countries alone

could not explain its superior employment performance. They
conjectured that

product market constraints contributed to low employment
growth in many

countries, which motivated a major

OECD project that analysed the product and labour market
interactions.

As a chairman of the OECD's Economic Policy Committee, Alan
popularised the

notion of the "Great

Gatsby curve" – which was partly based on OECD inequality
estimates

– suggesting that higher income inequality in one generation
constrains the

ability of people in the next generation to move up the
economic ladder. This

consideration has contributed to the OECD refocusing its
policy advice towards

a more inclusive growth model and a broader sharing of
productivity gains.

Finally, Alan's ideas on the importance of subjective well-
being were

influential in the context of the OECD reflection on how to go
beyond

GDP in measuring what counts for social and economic
performance.

The OECD's current research programme is testament to Alan's

continuing influence. His recent work was concerned with the rise of platform-intermediated work arrangements and analysed their effects on productivity and whether they warranted a rethink of labour market regulations and social protection. At the 2018 Jackson Hole conference, he also raised the issue of the macroeconomic implications of employer labour market power, highlighting the role of employer concentration and anti-competitive practices such as non-compete clauses and anti-poaching agreements. His work has not only been instrumental in putting remedies to inequality issues in the spotlight but also helped disseminate them across countries, putting these issues high on the OECD's agenda. His undogmatic, evidence-based approach to policy advice will provide guidance for years to come.