

Hana Lipovská

# Alan Krueger: Worker in the Vineyard of Economics

RECEIVED 23 April 2018; ACCEPTED 9 January 2019.

When a common man commits suicide, it is a tragedy for his family. When a leading authority commits suicide, it is a tragic loss for society. However, when a leading world-class economist commits suicide when being on the top of his still rising bright career, it is primarily the key economic question.

It was the economic imperialism of Gary Becker that enabled the economic science to study each and every aspect of human life using the specific economic approach. In their article *Suicide: An Economic Approach*, Becker and Posner (2004) sought to explain suicide in terms of the utility function optimisation. They treated suicide as *a purposive action that compares the benefits of continued living with the 'benefits' and 'terror' of death* (Becker and Posner 2004:2). It is symptomatic that their article is opened by the proclamation that *'it is about the choices made by very unhappy or miserable individuals. There are many options, including joining a gang, taking drugs, starting or resuming smoking, drinking heavily, gambling heavily, committing crimes, taking highly risky jobs, engaging in very risky sports, marrying in haste, divorcing, joining a church, visiting a psychiatrist, committing suicide, and still others'* (Becker and Posner 2004:1).

Nobel Prize winner Gary Becker was probably the first economist who was able to recognise that if *'Mathematics is the language in which God has written the Universe'*, as Galileo Galilei claimed, the Economics is the language that can describe the world of humankind. The next generations of economists just could use this unique language and translate into it our everyday lives with their finest details. The great master of such translation and interpretation was without any doubt Alan B. Krueger (1960–2019). He was able to look at the world with prism of the utility functions, heterogeneity of preferences and rationality, which could explain the whole life from the cradle to the grave.

When he suddenly died, the whole economic world mourned one of the economists who changed the face of our *Ars et Scientia* without touching her heart and her very essence. He was spontaneously remembered as the prominent labour economists who revolted against the standard approach towards the minimum wage; he was remembered as the Chairman of the Clinton's and Obama's Council of the Economic Advisers, as vice president of the American Economic Association in 2017, as one of the top 50 economists according to the number of citation (ranked 43 between his colleges and co-authors Daniel Kahneman and Lawrence H. Summers, IDEAS 2019) and, last but not least, as one of those who are *'to watch for the Nobel Prize'* (Rampell 2013; Cronin 2013; Lahart 2011). Nevertheless, couple of his colleges asked themselves, how much was his sudden death influenced by his extraordinary ability to optimise the utility function. Besides his life–work theme of the labour economics and his last but beloved theme of the rockonomics, his academic research in the past decades had been devoted to the field of terrorism, on the one hand, and determinants of happiness, on the other hand. Both themes being closely connected to the suicides as the route Alan Krueger decided to undergo on the 16 March 2019.

Krueger's very first serious scientific article, *Reflecting on the inter-industry wage structure*, was published in 1986 with his supervisor Lawrence Summers as the co-author. It was also his first contribution to the empirical discussion of the **wage theory and labour economics**. Already this article opposed the classical theory, as it questioned the optimal allocation of the output by the market, claiming that *some industries are better candidates for policy encouragement than others* (Krueger and Summers 1986:30). Moreover, they suggested that wage differentials can be a source of involuntary unemployment. His following article dealt with the question if the public workers are paid better than comparable private sector workers (Krueger 1988). His longitudinal study suggested that the pay gap is deepest on the highest levels and nearly non-existing on the lowest levels when comparing the public and private sector workers performing similar jobs.

Nevertheless, his crucial contribution to the labour economics was the so-called **Card–Krueger study** *Minimum wage and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania* (Card and Krueger 1994). The standard economic theory suggests that the minimum wage *ceteris paribus* leads to the increase in unemployment especially amongst the young and low-qualified workers. On the contrary, Card and Krueger used kind of the natural quasi-experiment to prove the decrease in the

unemployment. New Jersey increased the minimum wage from \$4.25 to \$5.05 on 1 April 1992. Card and Krueger studied the impact in the field of the fast food restaurants in comparison to Pennsylvania where the minimal wage remained the same. They concluded that, contrary to the text book theory, the increase in the minimum wage was connected to the increase in the employment in the New Jersey.

Paul Krugman called this result, widely used by the policy makers, ‘an intellectual revolution’ (Krugman 2015). Non-expected results are always blessing for the scientists; however, they also attract attention of the economists who try to revisit them. Cooper (2015) reminded that Card–Krueger study analysed situation just for the time-span of the 11 months after the minimum wage increase. Nevertheless, for example, Meer and West (2013) used Monte Carlo simulation as well as administrative data analyses to show that the *minimum wage reduces employment over a longer period of time*, which is important especially because *the minimum wage jobs often result in relatively rapid transition to higher-paying jobs* (Meer and West 2013:22–23).

Later, Krueger connected the labour market studies with the economics of education: he analysed returns to education reflecting the school quality (Card and Krueger 1992) or labour market effects of the school quality (Card and Krueger 1996). Typical example of Krueger’s economic study is represented by the article *Why Do World War II Veterans Earn More Than Nonveterans?* (Angrist and Krueger 1994). As most of his articles, it discusses popular paradox or at least provocative hypothesis – in this case, he asked, if the war veterans earned more than his non-veteran counterparts. Symptomatically enough, he refuted the popular statement claiming that actually the veterans may earn even less. Finally, as most of his articles, even this one was captioned by the question mark.

Even the last Krueger’s study was devoted to his life topic of the labour economics. Together with Lawrence Katz from Harvard, he analysed the *alternative work arrangements* (e.g. works such as UBER drivers) *in the United States* (Katz and Krueger 2019). This article followed up an earlier study (Katz and Krueger 2016) that claimed that *the percentage of workers engaged in alternative work arrangements as temporary help agency workers, contract workers, freelancers, etc.* rose between 2005 and 2015 by 5.7 percentage points to 15.8% (Katz and Krueger 2016). These findings were later checked by the U.S. Bureau of Labor Statistics, with completely different results as they detect decrease from 10.7% in 2005 to 10.1% in 2017 (DePillis 2018). Krueger’s last article, therefore, tried to *reconcile trends in alternative work arrangements* (Krueger and Katz 2019).

The second group of studies was devoted to the **terrorism** and terrorist’s incentives. Besides monography *What Makes a Terrorist: Economics and the Roots of Terrorism* (Krueger 2008), Krueger published whole load of articles on this theme. Study *Education, Poverty and Terrorism: Is There a Casual Connection?* claims that there is no relationship between the poverty, education and terrorism (Krueger and Malččková 2003). Later work *Kto Kogo?: A Cross-Country Study of the Origins and Targets of Terrorism* (Krueger and Laitin 2007) confirms that *sources of international terrorism have more to do with repression than with poverty* as – according to the regression analysis – *neither country GDP nor illiteracy is a good predictor of terrorist origins*. Furthermore, according to the findings of the study *What makes a home-grown terrorist? Human capital and participation in domestic Islamic terrorist groups in the U.S.A.*, Krueger showed that the US terrorists tend to have higher education and they are younger in comparison to other US Muslims. Moreover, there is positive correlation between the education level and success of the terrorist attack (Krueger 2008).

Third, novel part not only of the Krueger’s work but of the economic science as whole is closely connected with his life and death: the **economics of happiness**. His basic finding was summarised in memories of David Leonhardt (2019): *the best way to increase happiness, according to his empirical findings, is to spend time with friends*. Krueger’s studies on the economics of happiness were conducted together with Nobel Prize winner Daniel Kahneman. First, he focused on the well-being using *time budgets* and *effective ratings of experiences* (Kahneman et al. 2004). Authors claimed that the ultimate goal of public policy is not the maximisation of the gross domestic product but the well-being. They suggested time allocation as proxy for its measurement. The so-called National Time Accounting (NTA) enables us to *measure, compare and analyse, how people spend and experience their time across countries, over historical time, or between groups of people within a country at a given time* (Kahneman et al. 2009b:5), which they also implemented on France and the United States (Kahneman et al. 2009a). The increase in the so-called non-work time is being seen as an important factor of well-being improvement. More traditional approach tries to answer the canonical question: *Would you be happier if you were richer?* (Kahneman et al. 2006) – with the simple brusque result: ‘No’.

Last part of Krueger’s work deals with the **economics of music** – which was also the subject of his course at the Princeton University. He devoted to this topic also in his very last book *Rockonomics: A Backstage Tour of What the Music Industry Can Teach Us about Economics and Life* published post mortem on 4 June 2019.

His former supervisor Lawrence Summers (2019) wrote in the obituary: ‘*I have had no student of whom I have been prouder than Alan Krueger. Alan’s gift was something different – something that cannot really be taught. He had the knack of identifying important questions that he could convincingly answer with the data and data-analysis tools at his disposal. Again and again, sometimes on his own and sometimes with a range of co-authors, he shed light on the most important issues regarding labor markets. Our understanding of the economy and, equally important, how best to do economics was forever changed.*’

Economics is not in any way the science of consensus. It is not the science that should have an ambition to *change* the world. On the contrary, it is science based on the vital plurality of ways, trials and errors, that – only together – hopefully push us in our effort to understand the world at least one step forward. Alan Krueger was the economists, with whose thesis, thoughts, articles and decisions other economists could even disagree or they might find them inaccurate, but, chiefly, they could and they can lead to a substantive discussion over his findings. His findings were not the mere normative proclamations, but the graspable positive thesis that can be again and again verified or falsified. The economics without Alan Krueger is certainly poorer and darker science than it was with him, but above all: the economics after Alan Krueger is richer and deeper science than it was before him.

## REFERENCES

- Angrist, Joshua and Krueger, Alan, B. 1994. *Why Do World War II Veterans Earn More Than Nonveterans?* Journal of Labor Economics, 12(1), pp. 74–97.
- Becker, Gary S. and Posner, Richard A. 2004. *Suicide: An Economic Approach*. Working Paper, University of Chicago.
- Card, David and Krueger, Alan, B. 1992. *Does School Quality Matter? Returns to Education and the Characteristics of Public Schools in the United States*. Journal of Political Economy, 100(1), pp. 1–40.
- Card, David and Krueger, Alan, B. 1994. *Minimum wage and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania*. American Economic Review, 84(4), pp. 772–793.
- Card, David and Krueger, Alan, B. 1996. Labor Market Effects of School Quality: Theory and Evidence. In Gary Burtless (ed.), *Does Money Matter? The Link Between Schools, Student Achievement and Adult Success*, Washington, D.C.: Brookings Institution, pp. 97–140.
- Cooper, Preston. 2015. *What the Card-Krueger Study Tells Us about the Minimum Wage*. Foundation for Economic Education. Available on-line: <https://fee.org/articles/what-the-card-krueger-study-tells-us-about-the-minimum-wage/>
- Cronin, Brenda. 2013. *Handicapping the 2013 Economics Nobel*. The Wall Street Journal. Available on-line: <https://blogs.wsj.com/economics/2013/10/10/handicapping-the-2013-economics-nobel/>
- DePillis, Lydia. 2018. *Gig economy jobs aren’t really taking over America’s workforce*. CNNMoney. Available on-line: <https://money.cnn.com/2018/06/07/news/economy/contingent-workers-bls-gig-economy/index.html>
- IDEAS. 2019. Top 5% Authors, Number of Citations, as of April 2019. Available on-line: <https://ideas.repec.org/top/top.person.nbcites.html>
- Kahneman, Danny, Krueger, Alan, B., Schkade, David, Schwarz, Norbert and Stone, Arthur. 2004. *Toward National Well-Being Accounts*. American Economic Review Papers and Proceedings, 94(2), pp. 429–434.
- Kahneman, Danny, Krueger, Alan, B., Schkade, David, Schwarz, Norbert and Stone, Arthur. 2006. *Would You Be Happier If You Were Richer? A Focusing Illusion*. Science, 312, pp. 1908–10.
- Kahneman, Danny, Krueger, Alan, B., Schkade, David, Schwarz, Norbert and Stone, Arthur. 2009a. *Time Use and Subjective Well-Being in France and the U.S.A.* Social Indicators Research, 93 (1), pp. 7–18.
- Kahneman, Danny, Krueger, Alan, B., Schkade, David, Schwarz, Norbert and Stone, Arthur. 2009b. *National Time Accounting: The Currency of Life*. Measuring the Subjective Well-Being of Nations University of Chicago Press, pp. 9–86.
- Katz, Lawrence, F. and Krueger, Alan, B. 2016. *The Rise and Nature of Alternative Work Arrangements in the United States, 1995–2015*. Princeton University and NBER.
- Katz, Lawrence, F. and Krueger, Alan, B. 2019. *Understanding trends in Alternative Work Arrangements in the United States, 1995–2015*. NBER Working Paper No. 25425.
- Krueger, Alan, B. and Summers, Lawrence, H. 1986. *Reflections on the Inter-Industry Wage Structure*. In Kevin Lang and Jonathan Leonard (eds.), *Unemployment and the Structure of Labor Markets*. London: Basil Blackwell Press, 1987, pp. 17–47.
- Krueger, Alan, B. 1988. *Are Public Sector Workers Paid More Than Their Alternative Wage? Evidence From Longitudinal Data and Job Queues*. In Richard Freeman and B. Casey Ichniowski (eds.), *When Public Sector Workers Unionize* (Chicago: The University of Chicago Press, 1988), pp. 217–240.

Krueger, Alan, B. and Malečková, Jitka. 2003. *Education, Poverty and Terrorism: Is There a Causal Connection?* Journal of Economic Perspectives, 17 (4): pp. 119-144.

Krueger, Alan, B. and Laitin, David, D. 2007. *Kto Kogo?: A Cross-Country Study of the Origins and Targets of Terrorism*. Princeton University and NBER.

Krueger, Alan, B. 2008. *What makes a homegrown terrorist? Human capital and participation in domestic Islamic terrorist groups in the U.S.A.* Economics Letters, 101, pp. 293–296.

Krugman, Paul. 2015. *Liberals and Wages*. The New York Times, 17<sup>th</sup> July 2015. Available on-line: [https://www.nytimes.com/2015/07/17/opinion/paul-krugman-liberals-and-wages.html?\\_r=0](https://www.nytimes.com/2015/07/17/opinion/paul-krugman-liberals-and-wages.html?_r=0)

Lahart, Justin. 2011. *Handicapping the 2011 Economics Nobel*. The Wall Street Journal. Available on-line: <https://blogs.wsj.com/economics/2011/10/06/handicapping-the-2011-economics-nobel/>.

Leonhardt, David. 2019. *Alan Krueger's Two Lessons*. The New York Times. Available on-line: <https://www.nytimes.com/2019/03/19/opinion/alan-krueger-happiness.html>.

Meer, Jonathan and West, Jeremy. 2013. *Effects of the minimum wage on employment dynamics*. NBER Working Paper Series, WP No. 19262.

Rampell, Catherine. 2013. *Economists to Watch for the Nobel Prize*. New York Times. Available on-line: <https://economix.blogs.nytimes.com/2013/10/11/economists-to-watch-for-the-nobel-prize/>.

Summers, Lawrence, H. 2019. *Alan Krueger helped make life better for millions who will never know his name*. Available on-line: <http://larrysummers.com/2019/03/21/alan-krueger-helped-make-life-better-for-millions-who-will-never-know-his-name/>.