LAWRENCE H. SUMMERS

John Bates Clark Medalist

1993

Lawrence Summers has published over one hundred research papers. Although this extraordinarily rich and varied body of work is concentrated in four principal areas—public economics, macroeconomics, financial economics, and labor economics—his influence has permeated all areas of applied economics. The hallmark of Summers's research is the skillful development of new and persuasive empirical evidence that successfully distinguishes among competing explanations of significant aspects of economic behavior.

A few examples that indicate the breadth of Summers's impact are his empirical studies of the economic effects of tax policy, the persistance of unemployment, mean reversion in stock markets, and modeling in macroeconomics:

Summers's earliest work in public economics focused on the economic impact of capital income taxes on investment behavior. His papers published in *The American Economic Review* and *Brookings Economic Papers* in 1981 established a framework for analyzing the impact of capital income taxes on business investment. This framework encompassed a forward-looking theory of asset valuation, based on James Tobin's *q*-theory. In subsequent research Summers has distinguished between taxes on new investment and taxes on existing capital, providing the intellectual underpinning for tax incentives that affect only new investment, such as the investment tax credit.

Much of Summers's research on labor economics is summarized in his 1990 book, *Understanding Unemployment*. His influential series of papers with Kim Clark, published from 1979 to 1982, identified the extent of long-term unemployment and its distribution among demographic groups. His paper with Olivier Blanchard in the *NBER Macroeconomics Annual, 1986*, presented a theory of hysteresis in labor markets and developed empirical tests of the theory for a number of European countries. This paper and the voluminous research it has generated have figured prominently in discussions over rising unemployment rates in Europe.

Summers's work in finance has consistently challenged some of the most fundamental assumptions of the field. His 1986 paper in the *Journal of Finance* showed how difficult it is to distinguish empirically between the random-walk hypothesis for stock prices and mean reversion in market returns. His paper with James Poterba in the *Journal of Financial Economics* for 1988 evinced evidence of long-term mean reversion in U.S. stock prices. This research and the literature that has followed it have greatly enhanced our understanding of financial markets.

Summers's 1985 paper with Gregory Mankiw and Julio Rotemberg in the *Quarterly Journal of Economics* pointed out important discrepancies between the implications of an optimizing model of a representative consumer and empirical data on aggregate consumer behavior. Summers extended this critique to a vigorous attack on real-business-cycle theory and argued that the natural-rate hypothesis of unemployment is not well founded empirically. He has advocated macroeconomic theories with multiple equilibria and hysteresis as more promising avenues for research. Summers's critiques have sparked an ongoing debate that has illuminated many aspects of empirical modeling in macroeconomics.

Lawrence Summers's research has been at the forefront of a remarkable resurgence of empirical economics over the past decade. This research has restored the primacy of actual economies over abstract models in much of economic thinking. His work has inspired a new generation of economists, many of them his students and collaborators, who are now reconstructing the empirical foundations of the discipline. The John Bates Clark Medal for 1993 is awarded to Summers in recognition of these outstanding accomplishments.