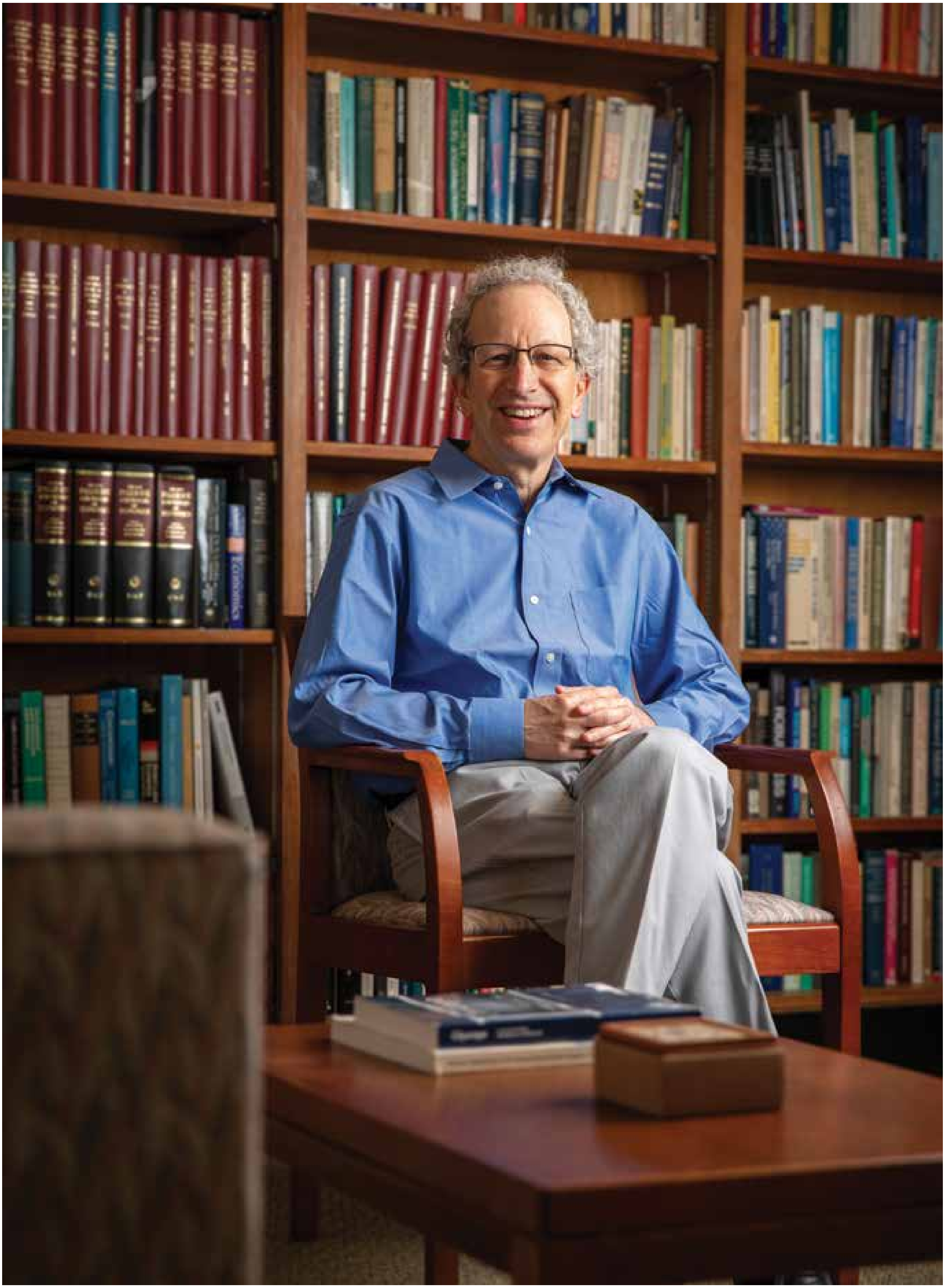

PORTER GIFFORD

People in Economics

The Inequality Economist

Bob Simison profiles Harvard's **Lawrence F. Katz**, whose research changed economists' understanding of economic disparity

LIKE THE REST OF US, HARVARD LABOR economist Lawrence F. Katz has been thinking about how artificial intelligence (AI) will change the future—especially what it will mean for inequality. Since the 1980s, he has made groundbreaking contributions to economists' understanding of the issue and what can be done about it.

Under one AI scenario, Katz says, the technology could help people who are already in advanced, high-paying professions, "thereby potentially exacerbating labor market inequality." Under another, it might help level the playing field for workers on the lower end of the scale.

"AI may increasingly substitute for elite expertise, making it less scarce and making the insights from elite expert knowledge more accessible to a broader range of workers," he says. "This scenario could help middle-skill workers versus elite professionals."

Whichever prevails, the 64-year-old Katz is likely to help lead the charge by academic economists—many of them his own protégés—to assess AI. Certainly, researchers will deploy his rigorous methods using big data and sophisticated analysis, reflecting his pervasive influence on economics over almost 40 years.

"He really casts a long shadow in economics," says the Massachusetts Institute of Technology's (MIT's) David Autor. "Larry was sounding the bell on the danger of rising inequality long before anyone else did." Autor is one of Katz's more than 200 former doctoral students. They include two winners of the John Bates Clark Medal, the top prize for economists younger than 40; three MacArthur Foundation grantees; and dozens of tenured scholars at top universities.

Katz's work sparked two intellectual revolutions in economics, according to a 2023 biographical sketch by Autor and Harvard's David Deming, another former Katz student. One was to apply economic theories of supply and demand to explain fluctuations in wage inequality over time. The other was to lead large-scale field experiments involving real people to answer big questions in social science, most prominently on the effects over multiple generations of moving to a higher-opportunity neighborhood.

"When the education system doesn't keep up, you have widening inequality," Katz says.

In addition, as the editor since 1991 of the august *Quarterly Journal of Economics*, "Katz has shaped the agenda of the economics profession over three decades," Autor and Deming write. They cite data suggesting that the QJE, as the journal is known, has had much greater influence on economics per paper published than any of the four other leading economic research publications, based on citations and other factors.

'Driven by social problems'

"Larry's really driven by social problems," says his wife and frequent research collaborator, 2023 Nobel laureate Claudia Goldin, another Harvard economist. "His passion is the underprivileged." (He does have another passion, she says: her champion scenting dog Pika, a 13-year-old golden retriever Katz walks several times a day.)

His passion for the underprivileged came from growing up as the son of a Los Angeles public school psychologist in the 1960s. His mother, born Vera Reichenfeld in 1938 in Belgrade, escaped the Holocaust with her family and grew up in Argentina and Uruguay. One of her teachers had studied at the University of Michigan. That led her to emigrate to Ann Arbor for college, where she met Katz's father.

As a Spanish speaker, she worked in some of the poorest neighborhoods in LA. Katz recalls that she took clothing and food to her schools for children from struggling families. He and his mother also discussed the hardships of attending schools without air-conditioning and whether that put kids in poorer schools at a disadvantage compared with students in richer, air-conditioned schools. Those encounters with poverty inspired Katz to focus on inequality, segregation, and race as a high school debater and as an undergraduate. (At the age of 85, his mother now works part-time as an actress in Spanish- and English-speaking roles.)

Katz likes to tell interviewers that he chose economics because the introductory class during his first quarter at Berkeley didn't meet until 10 a.m., and the beginning political science course was at 8 a.m. As an undergraduate, he began developing his data-driven approach to economic research when what's now known as the Fisher Center for Real Estate and Urban Economics hired him in 1979 as its first researcher.

He surveyed land-use officials from the 93 San Francisco Bay Area jurisdictions to collect reams of data showing how the recently passed property-tax-slashing Proposition 13 was leading to more restrictions on land use and driving up real estate prices. The findings turned into his senior thesis and his commencement address for the economics department.

In earning his PhD at MIT in 1985, Katz dug into the mechanics of unemployment. Rigorously analyzing US and UK data, he challenged an established theory that cyclical variations in joblessness grew out of shifts in labor demand requiring workers to move across sectors such as manufacturing and services. He showed that instead it had more to do with traditional business cycles from aggregate demand shocks. He further advanced understanding of the job-search behavior of workers who were temporarily idled and expected to be recalled, relying on longitudinal survey data.

This kind of large-scale data analysis opened a new frontier in economics long before advances in computing power enabled researchers to routinely crunch huge volumes of numbers. At that time, "public-use datasets came on nine-track tapes the size of deep-dish pizzas, and computer time was rented by the processor minute," according to Autor and Deming.

Katz put his approach on full display in 1992, when he published two influential papers. In one, he collaborated with the French macroeconomist Olivier Blanchard, who later served as chief economist of the International Monetary Fund. After joblessness nearly tripled in Massachusetts between 1987 and 1991 as a boom in tech and financial services went bust, they set out to understand what happens when there's a regional surge in unemployment.

Studying 40 years of state-by-state US data, Katz and Blanchard concluded that while it takes five to seven years for a state to rebound from an unemployment spike, the decline in the jobless rate reflects largely workers leaving the state rather than employers creating new jobs. It takes more than a decade for wages to return to normal.

"We found very solid patterns in the data, which gave a clear picture of labor mobility and regional evolutions," Blanchard says. The findings changed the way economists think about regional policies in other places, such as Europe, he says.

The other landmark 1992 paper directly addressed income inequality between people with and without college degrees. It overturned economists' thinking about earnings disparity. Katz and the University of Chicago's Kevin Murphy analyzed changes in US wages from 1963 to 1987, tapping into a vast Census Bureau dataset. They found that the income gap narrowed from 1970 to 1979 and widened dramatically after 1979. The conventional wisdom at the time attributed this to rising demand for workers with more education. But Katz and Murphy showed that it also reflected a sharp decline in growth of the supply of such workers relative to rising demand.

"When the education system doesn't keep up, you have widening inequality," Katz says. Those two research efforts set off "a work of passion" delving into inequality over the succeeding three decades, he says. One of the most important, longest-running projects was his collaboration with Goldin on their 2008 book, *The Race between Education and Technology*.

Education and inequality

The couple, who met in the late 1980s at the back entrance of the National Bureau of Economic Research in Cambridge, Massachusetts, started the research in the early 1990s. It grew out of some of Goldin's preliminary work on the history of education and its impact on wages, she says. "Larry was obsessed with changes in the wage structure," she says. "He was the first economist in the 1980s who saw the inequality gap expanding."

The researchers tapped into "tons of datasets" and manually tabulated Bureau of Labor Statistics data from the early 20th century, Katz says. They dug up campaign materials created in the 1910s and 1920s by local school boards—in rural areas more than in cities—pushing the "high school movement" to prepare young people for better jobs.

This gave US workers a tremendous advantage as "America educated its youth to a far greater extent than did most, if not every, European country," they write. "By the 1930s, America was virtually alone in providing universally free and accessible secondary schools." Widening inequality in the US by the end of the 20th century reflected not so much the speed of technological change, they argue, as a shortfall in willingness to continue investing in education.

"We could have done the same thing with college and vocational education that we did with the high school movement," Katz says. "We have an incomplete postsecondary education revolution. We left it to families to provide that." Today he advocates investing more in state universities and in strong vocational education and sectoral employment training programs for high school graduates. (He and collaborators published a series of papers in the 2010s showing that employers put little value on degrees from costly for-profit colleges.)

Fifty to 60 percent of the rise in US wage inequality since 1980 grew out of the slowdown in educational advances relative to continuing growth in demand for college-educated workers, which widened the pay differential between those with and without college degrees, Katz says. Other factors include the decline of unions, the erosion of the federal minimum wage, the surge in executive and other top-end compensation, and the fissuring of supply chains with increased domestic outsourcing, greater use of the gig economy, and international offshoring, he suggests.

In 1993, Katz became chief economist of the Department of Labor during the administration of Bill Clinton. That put him in a position to help design what other economists call one of the most important social policy experiments in US history, the Moving to Opportunity housing mobility program.

After the LA riots over the 1991 police beating of Rodney King, "Congress felt a little responsible and passed a bill with some money for a demonstration project on neighborhoods," Katz says. The program began in 1994 in Boston, Baltimore, Chicago, New York City, and Los Angeles and included 4,604 families living in public housing in some of the country's poorest neighborhoods. The idea was to find out whether helping randomly assigned families move to a better neighborhood would benefit them economically.

It didn't, at first, Katz and other researchers found. But that was only part of the story. Participants did report improved physical and mental health, and as Katz and his colleagues continued following the group, something unexpected emerged. Children who were younger than 13 when their families moved to safer, lower-poverty neighborhoods had 30 percent higher earnings as young adults, were more likely to attend college, got into better colleges, and lived in lower-poverty neighborhoods as adults.

"Little did I know I would still be studying this more than 25 years later," Katz says.

The experiment has policy ramifications today as some local governments, such as Seattle's, apply the findings to recipients of housing vouchers. "Where you live affects how healthy you are and many other things," Katz says. "We could do a lot more using existing resources." The administration of Joe Biden sought to fund a broader program, but "it all got killed" in negotiations with Congress, Katz says.

The Katz effect

As editor of the QJE for the past 32 years, Katz has magnified his influence on economic research, other economists say. Under his leadership, the journal takes on big questions in social science and human welfare, extending the frontiers of economics, according to Autor and Deming. He pushes researchers to take risks and follow the data where it leads, others say.

"In the field, it's known as the Katz effect," says Harvard economist Raj Chetty, a John Bates Clark medalist and another Katz protégé. Chetty has played a leading role in studying the ramifications of the Moving to Opportunity project.

"He is highly respected by the authors, an exceptional feat," says France's Blanchard, who was coeditor of the journal with Katz for seven years. "Strong editors typically make many enemies. He has not." Katz reads and responds to every paper that's submitted, he says. The QJE receives about 2,000 submissions a year and publishes 48.

For the past 25 years, Katz has also played a role as mediator in labor negotiations and disputes between Harvard and various unions. He led what was unofficially known as the Katz Committee, which in 2001 issued a report on outsourcing that led to a wage and benefits parity policy between in-house and contracted-out workers. The policy aimed to allow Harvard to use outsourcing for efficiency gains but not to undercut unionized university employees.

Certainly a pillar of his legacy are the 239 PhD economists Katz has trained. He maintains an up-to-date nine-page list of them on his Harvard website, showing the year of each one's doctorate, initial posting, and current position. Many of them cite him as their professional inspiration.

"He is a prolific advisor who's had an enormous impact on public policy by nurturing so many leading economists," says the University of Michigan's Betsey Stevenson. "He was always available. He has an encyclopedic knowledge of research in the field and can instantly tell you where your project would fit in the literature."

As a graduate student, Stevenson was doing research on happiness and economics. She recalls telling Katz of her finding that winning the lottery usually makes people happier, at least initially.

"Winning the lottery probably wouldn't make me any happier," she says he told her. "It wouldn't help me write papers any faster." F&D

BOB SIMISON *is a freelance writer who previously worked at the* Wall Street Journal*, the* Detroit News*, and* Bloomberg News.