

## TRANSCRIPT

### The Work Goes On

Guest: Frank Stafford

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#### Frank Stafford:

Prior to that finding, the news media were full of the culture of poverty, and if you get in below the poverty line, you're stuck there. And ironically, the PSID showed that no, there's a lot of mobility in and out of poverty.

#### Orley Ashenfelter:

Welcome to [The Work Goes On](#), a podcast from the [Industrial Relations Section at Princeton University](#). I'm your host, [Orley Ashenfelter](#), the Joseph Douglas Green 1895 Professor of Economics at [Princeton University](#). In this podcast series of conversations with leading thinkers and practitioners, we are creating an oral history of an entire generation of industrial relations experts and labor economists whose contributions to their fields have been absolutely extraordinary.

Our guest today is [Frank Stafford](#), who is professor of Economics Emeritus at the [University of Michigan](#) and co-principal investigator of the [Panel Study of Income Dynamics](#). He is renowned for his work in labor economics, as well as for his role in the development and maintenance of the primary sources for the study of workers. Frank, welcome to [The Work Goes On](#).

#### Frank Stafford:

Yeah, Good to see you...having a nice sunny day here in Ann Arbor.

#### Orley Ashenfelter:

That's very good! Let's begin the discussion by talking about your background. Where did you grow up?

#### Frank Stafford:

Yeah, I grew up in the Chicago area. My dad got involved in World War II, and after the war we lived in Chicago, right next to Wrigley Field. And then later on, not too much later, we moved to Evanston, and then later on we moved to Glenview, Illinois where I finished high school in 1958.

#### Orley Ashenfelter:

I know you went to Northwestern for college. It wasn't far away I guess.

#### Frank Stafford:

Right, and I got a scholarship, plus my mother was an executive secretary in the political science department and they had faculty, or, employee discounts for children. So I got a really, by today's prices at NU, I think I got a real bargain.

#### Orley Ashenfelter:

Did you major in economics there?

**Frank Stafford:**

Yeah, I did, and it was a very small following as a major back in that time. And people say, "Well, what do you do when you major in economics?" They had classes, but people would take maybe one class and hope to use it for a business degree. But there were very few majors, I mean relative to the size of the school and the ability of the students.

**Orley Ashenfelter:**

And it is historically one of the best departments at Northwestern.

**Frank Stafford:**

Oh my god, I had unbelievable faculty there. I had Robert Strotz for price theory. I had Meyer Burstein for macro, and then because I got a good grade in that, I guess I was allowed to apply for Franco Modigliani's macro class.

**Orley Ashenfelter:**

Wow.

**Frank Stafford:**

So I had, and I also had the statistics from Walter Oi, who we all know.

**Orley Ashenfelter:**

Oh my heavens. That's a lot of wonderful names. Walter, of course. Gee, that's, he was one of my favorite people. But I knew he was at Northwestern, but I didn't realize, and I'd forgotten Franco was there too. That's very interesting. So then, now, what happened next?

**Frank Stafford:**

Yeah, so I graduated early. My dad said, "Why mow lawns? Just go to summer school, and you get your degree, you earn more than mowing lawns." So, my dad was my human capital advisor, and I graduated in, I finished my courses in December of 1961, I believe it was. So I thought, "Well, what am I going to do?" And I was advised, "Well gee, you like economics and you're sort of thinking about business. Why don't you go and get an MBA at the business school at Chicago?" So I started and I was going through the MBA courses. And how did I get into labor as a field? I took George Shultz's labor economics course, and as I was taking the course, he was encouraging me to apply for a Ph.D. So I applied and I got a PhD at admission and financial support.

**Orley Ashenfelter:**

You know, that's amazing. You're actually connecting to a [podcast that we did with Bob McKersie](#). George of course, who was a friend of a lot of people, I didn't realize he had a hand in your being a Ph.D. as well. That's amazing how much influence he had.

**Frank Stafford:**

Well, yeah, and then McKersie was involved on my thesis exam, and then of course George Shultz was dean, so he wasn't helping me. I actually... I had a great Ph.D. committee. I had, Reuben Kessel was the chair, but the other committee members were Arnold Zellner and Merton Miller. And I was looking at, if you were in a high paying field as you got toward graduation, did you spend more? And Milton Friedman

heard about it and uses an example to sell his permanent income story in the graduate macro class. He ended up being a very valuable advisor on my thesis and actually took me out to dinner after I defended.

**Orley Ashenfelter:**

That's actually a wonderful story. I'd never heard any of that before. Yes, quite a, so what was your dissertation about?

**Frank Stafford:**

Well, they had data on financing graduate education at NORC, and it was a huge sample across sectional. So this was a big buzz, the human capital work at Chicago. So, we were in a field that pays well, or one that's not, and you're about to graduate. Do you spend more? Of course you expect to, although Merton Miller was skeptical. He said, "Well wait a minute. There's a liquidity constraint. Even if they can make a lot of money when they get out, they can't borrow against it. It's human wealth, not physical capital or other capital." But it turned out that at that point, student loans were becoming available, so I was able to convince Merton Miller that maybe they would spend, and so that's what I did, and they did. There was some effect certainly.

**Orley Ashenfelter:**

So you were really doing quantitative work at a very, very early period for labor economists, and you were certainly in an amazing place to do it. So what happened then? You got your Ph.D.

**Frank Stafford:**

It was actually from George Shultz that was encouraging me to consider a fellowship at NORC where I got my graduate support. And as I was graduating then, Merton Miller was saying, "Gee, you ought to go, maybe we can get your job at Michigan." And Milton Freeman said, "Man, that'd be great if you could work at Michigan. Jim Morgan is a really terrific mind and that would be a phenomenal opportunity." So I was hired at Michigan, and Michigan was actually doing panel studies. Interestingly enough, the word "panel study" was dreamed up by the Ford Motor Company marketing department, and I think they either explicitly or coincidentally discovered fixed effects. They could learn a lot more from people who were in the panel and gave opinions on prior products than just getting a fresh cross sample. So the term "panel study" actually was not dreamed up by academics, but it was group at the Ford Motor Company. And the term was also used by GE, which also had quote consumer panels, but there were ongoing panels in the 60s largely looking at consumption issues, which is what my thesis was connected to.

Then, so the first day I got to Michigan, they said, "Well, congratulations. I'm glad you're here. You're now director of the Survey of Consumer Finances." I said, "Oh." I said, "Well, that's pretty cool. So then, it turned out that the 1967 to '71 was designed as a quote "debt panel" for the Survey of Consumer Finances, and it was motivated by Arthur Burns, who was very concerned about the spread of credit cards. He was convinced that the use of consumer credit would erode American savings handbooks, and then there were these panels. So I ended up running and, designing and running the panel study of the Survey of Consumer Finances. I didn't stay a whole four years because I moved to the department after the first couple years at ISR. So I spent time back and forth between the department and ISR throughout my career, the times I wasn't out of the country or out of state for something.

**Orley Ashenfelter:**

Let me bring that up. I noticed in looking over your Curriculum Vitae, you have a big connection to Sweden.

**Frank Stafford:**

Right. My wife is Swedish, and if you have never been there, Sweden in the summer is about the most beautiful place imaginable. I spent many summers there, and even a winter or two in Sweden. So, I got connected to a thing called the Industriens Utrednings-institut, which is called IUI. It's kind of like a high-level research center for studying aspects of industry and the labor market, everything in the economy, and they became interested in creating a panel study. So, I had also, at the same time I was working on the consumer debt panel for Arthur Burns. I was also helping Jim Morgan design the PSID back in 1966 and '67. So, I got invited to work with, designing a PSID type study in Sweden.

**Orley Ashenfelter:**

We should add, by the way, Panel Study of Income Dynamics. Everybody says PSID, but it's helpful for some people who don't know that.

**Frank Stafford:**

That's true. That's true. So yeah, it is a Panel Study of Income Dynamics. The big issue there was related to Tobin and Friedman talking about the negative income tax, and nobody knew what were the real problems and patterns in poverty except from cross sections. So, one of my jobs actually back then was to try to see whether you could do a stratified sample that would over sample, in a known way, people with low income. And they had, actually, Jim Morgan invited Jim Tobin to come over, and Tobin stayed in residence for a couple of weeks. We tried to figure out, "is there a way you can get a legitimate sample of low income people?" Of course we didn't know that income varied so much from one year to the next.

So we're kind of, anyway, at the end of the day we had a relationship with a marketing firm that thought they knew what were the income levels and distributions by geospatial and zip code. And what turned out was that you couldn't stratify by zip code and get enough, at least, apparent cross-sectionally low income people. So that's how the SEO sample was born. But it wasn't just, "Gee, let's do this." I mean, Morgan was trying to resist that. So was Tobin, but we, turned out it would've been very impossible because no one knew that income was so variable from one year to the next.

**Orley Ashenfelter:**

So let's talk about that, that you were involved in the survey of economic opportunity and that was, I guess, is that sort of the basis for the origin of the PSID?

**Frank Stafford:**

It is, because survey, the OEO was interested in income dynamics.

**Orley Ashenfelter:**

So that's the opposite of, this is long gone, of course, the Office of Economic Opportunity, which was geared really at trying to solve problems related to people who were in poverty, set up, I guess in the Johnson Administration.

**Frank Stafford:**

Right, and they approached Morgan saying, "Gee, we should get panel data," and, "Why don't you just take a big sample of low income people?" And Morgan said, "Well, we can't do that. There has to be at least a more than disproportionately large national sample. Otherwise, what are we talking about? You can't just have a convenience sample," because they wanted him just to do a big panel of SEO, OEO-observed known low income families. But again, I think over time, as many generations of data have been collected, there's been a lot of mobility. So those who happen to be at low income in the SEO sample moved up and moved out and moved around. And of course, we did wait for, the over sample of SEO still there today, if you want. I don't personally worry too much about that, but I'm not a purist like some of my colleagues around the world.

**Orley Ashenfelter:**

The PSID is, of course, is, must be one of the best known data sources in the world, and you've seen lots of things people have done with it. How is it operating today?

**Frank Stafford:**

Well, it's going forward. We had David Johnson, who was director for a while. He left, so I think we do have some new leadership issues coming up in the near future. And Charlie Brown had been working with helping design and run the study in recent years, but he's also retiring, so we're definitely needing to bring in some new people. And it's a challenging job, because we're trying to listen to the research community create new ideas, but also have long-term continuity for certain elements. So it's a challenging job.

As a data set, it's fascinating, because they had a big NSF meeting several years ago, quite a while of all the big NSF data sets. So we go there, and I study the stars, and we get so many terabytes per second and so on. And I said, "Well, we study people," and so on. But what was interesting was that I described all these relational structures, and the researchers there realized that this complex panel of people with the family connections and comings and goings was actually far more complicated as a relational data structure than these science data sets, which you know, you got galaxies and individual stars within the galaxy and all that. So those are basically relational data structures, one to many, many to one.

And I learned about that running the panel study SCF, because we were partly supported by the auto companies. So while researchers care about families, the auto companies cared about cars. So they'd have a car file that took the cars. So, if you have a family that has no cars, well, so what? So they wanted to know, well, what, for the cars from a car perspective, what kind of families owned them? They wanted to have these car files, but that's the same idea as these complex relational structures, which are now prevalent in the PSID. So we have a had some brilliant, totally brilliant programming to actually create relational data that can be used online. Almost all the basic data are available without any confidential file protection. Obviously, if there is an issue, you certainly did have that.

We've had some brilliant programming and, because it's requires much more... once we brought in these child development supplements, so way back even in the 80s, we're saying, "Gee, we should start interviewing these families' children when they're zero to twelve. And they're eventually going to become the adult sample as they split off and form their own families, but we know what their childhood is like." So, we wrote proposals every year, and every year we'd resubmit them, get them rejected. Finally, in 1994 when I became the full-time director, we got lucky and were funded to collect, as of 1997, the child development supplement. So, we've been doing that ever since. The reason I mentioned this is because it just highlights the complex relational structure. And you can think of, "Here's a kid. Here are these parents. What kind of kids do they have?"

**Orley Ashenfelter:**

Yeah.

**Frank Stafford:**

So it's just like the car file back in the old days. Well, we have a programmer that runs this, just unbelievably talented, but I'll brag. I don't think there's anybody that has data as complex as ours, and it then still be usable, online, downloadable.

**Orley Ashenfelter:**

I'm going to ask you a question that's a little unfair, but I just think it would be fun to hear your response. What are, let's say two or maybe three things, studies, or research papers, or findings, that have come out of the PSID and that are your favorites?

**Frank Stafford:**

Well, I'm biased because I've written a lot and I like some of the things I wrote, but the first one, of course, the hallmark finding was the extreme volatility. There's been a lot of work by many people. Gottshalk and Moffitt, others looking at changes in income variability. Has it become more volatile, less volatile? So that's a key point, and it shaped policy, because prior to that finding, the news media were full of the culture of poverty, and, "If you get below the poverty line, you're stuck there." And ironically, the PSID showed that no, there's a lot of mobility in and out of poverty.

What was interesting based on that, there are some people extrapolated said, "Well, if there's a lot of movement of income from year to year, there must be even more mobility across generations. And it turns out, there's a lot of persistence of lifetime earnings across generations. So, you get a contrast between short-term dynamics, which are paired to not knowing more volatile, but then long-term, everybody saying, "Well, the American dream, blah, blah, blah." But then when you look at it, we look like a lot of other countries in terms of the extent to which there's longer term carryover, and there are people who are at low-income levels of parents on a persistent basis.

So if you look at intergenerational mobility, again, you get regression to the means. So if your dad was Bill Gates, you're probably not going to do quite as well as your dad. And if your parents were low, you're going to do better. But there is, so there's more mobility in the mid-range, obviously. But there is a group of people are, who have troubles across the generations.

**Orley Ashenfelter:**

Yeah.

**Frank Stafford:**

So those are really hallmark findings. A second major area that has been used is the fact that, as of 1984 and forward, the Panel Study of Income Dynamics has included financial and wealth measures including pensions in the last 15, 20 years. So there's a lot of interconnections between the labor market and financial dimensions of a family.

For example, we did studies on refinancing mortgages, which we've had mortgages way back till the first wave of PSID, but we were looking at refinancing mortgages, and others have been doing this. And what we discovered is that with the modern instant refi, people are using their, home equity as a kind of an ATM is one phrase. However, usually you're able to refinance without penalty. So, what we observed is that when the rates are low, like they were here a year or two ago, the refi rates are high, and when the

mortgage rates go up, refi rates fall. But when the refi rates are high, the share who are refinancing to a higher balance goes up, so it seems like not exactly optimal economic behavior.

And what are they doing? And there's actually a couple of papers saying people have no idea what they're doing, but what we discovered is that it was, they're basically searching for liquidity that is, they had a labor market crisis or a divorce or some other financial, but a lot of it was labor market, unemployment, and job problems, and they would refinance even to a higher rate on the entire balance. So, their marginal borrowing costs are really almost in credit card rates, trying to cover cash flow problem, or "consumption commitment" as the phrase is now used.

So that was another area, and it shows up in the pensions. So, what happened during the financial crisis? There's a lot of research showing that people did borrow against their pensions. We have questions on, "Did you cash in a pension or IRA?" And yes, they were doing that for the same kinds of labor market and family transition reasons as refinancing, including refinancing, because they had other problems, even with their mortgage. So, they, trying to struggle to get reduced payments, they try to refinance one way or another to maybe to a riskier loan, which, done some work on that.

But the key thing is that people are searching for a way to get out. Again, they don't want to get into bankruptcy, so they take some pretty substantial steps, including trying to work more and so on. In cases of the pensions, they borrow and they pay back. So they borrowed by partially cashing in during the low prices in the stock market, but then they repaid buying back stocks that had gone up at 2010 and '11. What's wrong with this picture? So, there's some bad luck there.

And the other thing that we showed, and this is only in the PSID data that I know. It's not available elsewhere, because we have labor market questions on, "Are you still, do you currently," you're under 62 and you're over 40, that's who we looked at in the sample. "Are you participating in a pension?" Well, prior to the great housing recession, their husband and/or wife were participating. The Great Recession comes along, and they have these same adverse events that lead them to try to get money one way or another, but what they were doing was they cease participating. So they're giving up, say, matching rates, and very costly for long-term pension accumulation if you start at age 40 and 50 cashing in your pension balance, and then stopping to participate in giving up the match from your employer. So that's a big area.

**Orley Ashenfelter:**

Let me ask you a question related to that. How many countries actually have PSID type data now?

**Frank Stafford:**

Yeah, lots. The first one that followed us was the German socioeconomic panel. And in 1984, I was in Stockholm with my wife on a sabbatical with our kids, and we were invited to a planning workshop for the German socioeconomic panel. We drove through East Germany and came through, literally, a hole in the Berlin Wall to get into West Berlin, and that was a design for starting the German socioeconomic panel, which has had a lot of success. They've been doing this for more than 30 years now, and they're also able to bring in East Germany when the East and West Germany were brought together. So, they have a unified national panel, but there've been a lot of others.

There's the British household panel, also started in 1984, '86. It was actually, I think motivated by Margaret Thatcher. And again, the British have a tremendous history in quantitative data collection. It's really impressive. So they wanted to get involved, and they had a remake of the British household panel to a panel, very ambitious panel, big sample called Understanding Society. It was a really brilliant economics and other discipline panel.

And then I got involved advising on a Israeli panel around 1999 or 2000, spent some, a week or two in Jerusalem, and I believe they've been using the data. I haven't been able to follow what they do. Then there's also the Australian household income and labor dynamics, and I worked to advise them on designs and visited Australia to have follow up meetings on how things were doing. And... there's also a Singapore panel, which I spent two visits to Singapore to help them design. It's a very interesting panel because it's got the PSID elements, but they have much better connection to government records on your income and mortgage payments. So they don't have to ask, "What's your mortgage?" They have government records on all that.

**Orley Ashenfelter:**

That seems to be more common in the US as well. Is there any talk of trying to link administrative records with the PSID?

**Frank Stafford:**

Yeah, that's a big area. We've definitely, I mean, we've got birth certificates, death certificates. We've got records of where they went to school linked into semi-confidential... the data aren't confidential, but in the context of the PSID, they'd be confidential. Detailed questions about each grade school and high school that they attended, so there's a lot of administrative links that we've been doing. Plus, there's been a tremendous growth of geospatial, labor market area commuting measures, things like that. So there's a huge number of things that can be merged in from external data.

**Orley Ashenfelter:**

Potential.

**Frank Stafford:**

So that's, and again, that just adds on top of the complex relational structure of the families.

**Orley Ashenfelter:**

We're coming to the end of our podcast, but there's one question I have to ask you about, and that's of course our old mutual friend [George E. Johnson](#), who both of us have known for... knew... he's no longer with us, for a very long time, and I noticed the University of Michigan now has a chair in his name, the George Johnson professor.

**Frank Stafford:**

Absolutely, yeah. No, George and I did a lot of empirical work together outside the PSID. That's when I was primarily in the econ department. And we also got involved in, actually three simple general equilibrium models. They're all the same structure, but one, we got sort of a controversial paper, which George loved because he was a iconoclast. But we showed that if you have convergence from your trading partners up to your technology, it's going to make your country worse off. There's some very strong general equilibrium effects, and the fact is that the trade economists weren't so happy, I think George just chuckled to himself.

**Orley Ashenfelter:**

He'd laugh about it. You're right.



**Frank Stafford:**

Yeah, and well, what the bizarre thing was, I presented that at a Stern Conference, and Paul Samuelson said, "My God, this is right. This explains why they, British didn't let the Indians have textile mills." So, I got a call a couple weeks later from Fischer Black, and he said, "Frank, I heard you had an interesting paper on, an interesting paper." He didn't say about what, and George and I were working on occupational exclusion, which is another version of that theme. And I said, "Yeah, we got some really interesting results on occupational exclusion." And Fisher says, "You labor economists, I'd never get into that kind of a topic. Oh, yeah, it's not that one," which is the trade paper. So, we had three papers that we worked on.

**Orley Ashenfelter:**

It's an interesting thing, because I also know that you worked in the Department of Labor, as did George, back in the 70s. What did you think of that?

**Frank Stafford:**

Well, that was quite something. That was the ASPER, Assistant Secretary for Policy Evaluation and Research. I think you were the first on the line of academic visitors to that job being sort of the local economist expert, and then George followed you, and then Dan Hamermesh was there, and then I followed Dan, and Alan Gustman followed me. I don't know what happened after that, but there's a lot of humor and a lot of friendly friction between us and the career folks in the Labor Department.

**Orley Ashenfelter:**

Yes, I always enjoyed that actually. Now, there are many, I think, this is, add a little, inject a the humor. All of us have a George story. Do you have a favorite George story?

**Frank Stafford:**

Wow. I got a lot of them, but well, just him enjoying getting all these people exercised about the tray thing was pretty interesting. But he, in the Labor Department, of course, he was great at kind of stirring up friendly, but serious controversy. And as you know, it was called the Office of Policy Evaluation and Research. So there's a various policies, and they had various commercial firms, quote, unquote "evaluate" these policies, and didn't meet George's standards. So, they had this meeting and he said, "Well, the only thing I can tell about these reports that makes one different from one another, they don't have any different content, which is to say there isn't any, but they weigh more or less."

**Orley Ashenfelter:**

He was, the first time I met him, he visited Princeton and he had a, I walked into his office and he had a box, and it said "[Edgeworth box](#)" on it. So I walked up to the box and I said, "George, there's nothing in this box." "Yes," he said, "It's an Edgeworth empty box."

**Frank Stafford:**

Well, there was actually an old kind of AEA readings book and was a kind of critique of economics, and it was titled "Empty Economic Boxes." So we have all these theories, and then when you look at what do they really inform about the real world, a lot of them don't inform very much. So that was the term he, this paper in the AEA handbook was called "Empty Economic Boxes" by, not, I think it was a guy named Clapham or something like that, if I remember.

**Orley Ashenfelter:**

Yeah, I remember another one too in the Labor Department where it was a meeting or something, and George was standing up, I think, saying something. And whatever he said, someone in the room, it might have been somebody well known, I don't remember, said, "George. George. George. Just wait a minute, step back a minute. Just step back a minute." Remember this?

**Frank Stafford:**

Yeah.

**Orley Ashenfelter:**

So George stepped back out the door and never came back. He left.

**Frank Stafford:**

I heard about that when I didn't, yeah, I didn't, wasn't there. Yeah.

**Orley Ashenfelter:**

That's good.

**Frank Stafford:**

I mean, this is the, yeah, and so there was a lot of friction. We, it was friendly friction mostly, I will say.

**Orley Ashenfelter:**

Well, I think with that, we have a little touch of humor to end it with. I appreciate you joining us today, Frank.

**Frank Stafford:**

Yeah.

**Orley Ashenfelter:**

Our guest today has been [Frank Stafford](#), professor of Economics Emeritus at the [University of Michigan](#), and co-principal investigator of the [Panel Study of Income Dynamics](#). Please join us again for the next episode of [The Work Goes On](#), an Oral History of Industrial Relations and Labor Economics from the [Industrial Relations Section at Princeton University](#), when we will speak with [Daniel Hamermesh](#), the Sue Killiam Professor of Economic Emeritus at the University of Texas at Austin. I'm your host Orley Ashenfelter. Thanks for listening.

**Announcer:**

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