

TRANSCRIPT

The Work Goes On

Guest: John Pencavel

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John Pencavel:

If, as I see as reasonable, workers should be allowed to combine to present to employers their wishes, their preferences, that seems entirely reasonable. But at the same time, it's quite possible that these combinations of workers can accumulate so much power as to have great costs on society.

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 [John Pencavel](#), who is Levin Professor of Economics, Emeritus, at Stanford University. He is renowned for his work in labor economics and especially for his study of wages, labor supply, and trade union behavior. John, welcome to [The Work Goes On](#).

John Pencavel:

Thank you.

Orley Ashenfelter:

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

John Pencavel:

I grew up in West London.

Orley Ashenfelter:

Interesting. Where did you go to school?

John Pencavel:

Well, I grew up on what in England's called a council estate, and what in America is called public housing. So, this was a council estate that was on the edge of London. At that time, on the edge. London has got bigger. I was born at the end of the ... well, 1943, and it was within the area that was bombed during the Second World War. In fact, about a few months after I was born, at the end of the road a V1 rocket fell and blew in all the doors and windows of our house. My father had built within the house a little air raid shelter, but it was most effective in preventing things falling down. And I was told, I was a baby, but I was told I was covered in glass, and yet my mother said it was a miracle that I was not scratched or cut or anything.

Anyway, when the war ended, I went to an infant school, and then to a junior school, and then to the surprise of my teachers, I passed what was then called the Eleven Plus exam and went to a grammar school. All of those schools were in walking distance of home. Although for the grammar school, I often cycled to school. So, I thought I was very fortunate in having schooling so accessible to me.

Orley Ashenfelter:

What did your dad do?

John Pencavel:

He was a warehouse transport manager for a firm. He was laid off a number of times, but many of those firms were actually American firms. He had pulled himself up, pretty much. It's a long story, but he left school at 13 years old to look after, to help finance his mother, his father having been damaged in the First World War, and his first job was office boy. He was told, "Make yourself useful." He then pulled himself up and became, as I say, a transport manager for firms, directing their products all over Britain. It sounds more highfaluting than it was.

Orley Ashenfelter:

Yeah, but it's a working-class background.

John Pencavel:

That's right.

Orley Ashenfelter:

I actually had a student who listened to some of these podcasts say to me, "I guess all labor economists didn't grow up on the Upper East Side."

John Pencavel:

No.

Orley Ashenfelter:

It sounds like you didn't grow up on the Upper East Side, by any means.

John Pencavel:

Oh, far from it. The vast majority of our neighbors were people from the East End of London whose houses were destroyed during the war. So, most were East Enders, and then, well-

Orley Ashenfelter:

There was a famous television show called that.

John Pencavel:

That's right. That's right. And so these were good, hardworking people, but not well-educated and certainly not wealthy. I could still remember the rent man coming around collecting our rent.

Orley Ashenfelter:

Amazing. Now, I know you went to University College, very elite place, and in fact nowadays probably even better known in economics than it was when you went there.

John Pencavel:

Yes.

Orley Ashenfelter:

How did you end up there?

John Pencavel:

At that time, and maybe still today when you apply to university you don't apply to the university. You apply to a department in the university. And I wanted to go to university as my sister had before me, and I wanted to go to university, but I was not sure to what department I should apply. In other words, I was very keen on economics and I was also very keen on history, so I actually applied to a number of departments, to two departments, at various universities. I was also offered places in both history departments and economics departments, and I believe I'm fortunate to have chosen economics.

Orley Ashenfelter:

That's interesting. But how did University College, London ... Why was that your choice?

John Pencavel:

One reason is that my economics teacher at grammar school had been there, and he encouraged it, and we all had interviews before you were accepted at one of these departments. And I was very impressed by the interviewers, the academic staff, at University College, so that's how I went there.

Orley Ashenfelter:

And did you then commute from your house? Where did you live?

John Pencavel:

In my first year, I did commute from the house, but it really was quite taxing, because Hanwell, where I grew up is, well, actually it doesn't have an underground station. I had to take the bus and take the underground. So afterwards, in my second and third years, I found accommodation just a short bus ride from the college up in Camden Town. My last year, I've actually got into a, what is called, what? A dormitory, student lodgings, just walking distance from the college.

Orley Ashenfelter:

Now, you were obviously very successful at University College, London. Was there someone especially influential? Because you ended up then as a graduate student at Princeton with a very distinguished fellowship. How did that happen?

John Pencavel:

Well, my tutor at University College was a man called John Spraos. His background was Greek. He was an excellent economist. He has advised the Greek government, and he was an excellent teacher. He used to hand his notes over to us, and we used to say, "They should be published." So, he was an excellent economist and also a very good advisor. After three years of my undergraduate education,

University College, as had London School of Economics down the road, instituted a one-year master's degree, and he encouraged that I do that, and I did. His specialty, actually, was international economics and foreign exchange rates.

Anyway, while doing that master's degree, he said to me, "Well, what are you going to do next year?" And I said, "Well, I don't know." And he said, "Well, look, a lot of good economics these days is being done in America. Why don't you go visit America?" Well, I was very willing to adopt that, but I didn't know how to go about it. So, I wrote to the American Embassy, and they said-

Orley Ashenfelter:

You wrote to the American Embassy?

John Pencavel:

Yeah, in London, and well, they sent me forms. Well, one applied to MIT, one applied to Yale, and one applied to Princeton. I don't recall one for Harvard. I was asked to go to an interview, and at the interview, to my surprise [inaudible 00:09:46] I didn't interpret it as very meaningful, but I was asked, "Well, if you were offered a place at Yale or Princeton, which would you choose?" Well, I hadn't really thought of that. I didn't think I was likely to go to either, so I hadn't really prepared for that question. However, I didn't want to say that. I don't think it would burnish my appearance to say I hadn't looked into it, so I said, "Oh, Princeton."

And indeed, I was offered this Jane Eliza Procter Fellowship for one year at Princeton, and then I took a ship from Southampton to New York, which I was sick most of the time, and to New York and ended up at Princeton. It was only a one-year fellowship, but the Economics Department in Princeton was very accommodating and they supported me for three years.

Orley Ashenfelter:

How did you get into labor economics?

John Pencavel:

When I got to Princeton, I found labor a very appealing field, appealing because it seemed to combine some basic theoretical work and attempts to apply it. And it was that combination of a framework, a way of thinking about the way labor markets operate and the attempt to apply that theory, I found that very, very appealing. And of course, the person at that time, there were several people, but the person that I took my first labor economics class from was Al Rees, and Al combined these qualities. He was very interested in applications of economics to labor markets. And what do they say? "After that, it's all history." It was Al Rees more than anybody else, and the way he talks and the way he taught the subject, there was ... very influential.

Orley Ashenfelter:

His name has come up many times in these podcasts, by the way, and the connection to Chicago as well, so there's kind of an interesting ... In some ways, you're not so different from quite a few other people. Now, I know your dissertation. I remember it well, but let me ask you about that. How did you come to ... That work now, of course, seems kind of modern, not necessarily the empirical work, but the idea of it seems quite modern. What was it about?

John Pencavel:

Well, it was about labor turnover. Well, a man called Arthur Ross had written a paper previously called Industrial Feudalism in the Labor Market.

Orley Ashenfelter:

The balkanization of labor markets, isn't that what he was thinking about, right?

John Pencavel:

Well, he was suggesting that the growth of fringe benefits attached workers more closely to firms, and discouraged labor mobility across firms. But this was more conjecture than fact, and so I tried to write a dissertation using voluntary labor turnover as a test of whether over time, labor markets in America had declined because of the growth of supplements to wages.

Orley Ashenfelter:

What did you conclude?

John Pencavel:

There was little evidence for such a decline, and that the model describing these movements sort of characterized the labor market in somewhat naive manner.

Orley Ashenfelter:

That's interesting. It's a kind of modern question too, because many people have pointed to, I don't know if it's true in the industrial sector, but many people have pointed to declines in mobility across areas in the US.

John Pencavel:

Yes.

Orley Ashenfelter:

Do you think that may have changed?

John Pencavel:

Geographically, it does appear to have declined. I don't know that evidence that firm-to-firm movement has declined. Maybe along with geographic mobility it has. But the notion that was in the thesis was that firms weren't wage-takers, they were wage makers. In other words, that they had some influence over the wage that it could offer firms ... excuse me, offer workers, and that therefore this turnover was something that firms could influence by manipulating wages.

Orley Ashenfelter:

That's interesting. And of course that's now, I think, a more common view of the labor market because after the time that you wrote, for many decades, people kept thinking of firms as wage-takers, and I think probably that's evolved to something different. Now, you left Princeton, and then went to Stanford?

John Pencavel:

Yes.

Orley Ashenfelter:

And you've been there ever since?

John Pencavel:

Yes.

Orley Ashenfelter:

Is it the weather?

John Pencavel:

Well, not this year. No, they've been very good to me. I mean, when I first arrived, I had a Visa that permitted 18 months of what they call professional training, so my expectation was that I'd be here for 18 months. When I mentioned this to some administrators at Stanford, they said, "Well, let's see if we could do anything about that," and basically, they got around that restriction. To this day, I don't know exactly what strings they pulled. So that requirement ... it was a very important change, because for the first year, my mindset was one that, "Oh, in a year's time, or two years' time, I'll be back in England." And after that, I began to think more seriously about a longer-term appointment at Stanford. That was a very important step, getting rid of that visa problem.

Orley Ashenfelter:

You're very well known for a paper. I think it's probably ... still, people look at it, which is a very, very serious survey of labor supply behavior, primarily for males. You put a huge amount of energy into that. I wonder why?

John Pencavel:

Well, I did find that topic and that literature very interesting. It was, indeed, the dominant model was one that formed ... It was a simple extension of the demand for commodities that consumers might have, and it was an extension to take into account the demand for non-work time. And so, it satisfied the first feature of labor economics, that appeals to me, a well-thought-out model, a well-thought-out framework of thinking about problems. And then what had grown was an empirical literature investigating the relationships between work supply, the supply of work and wages and other variables. So, it was exactly what appeals to me in labor economics, a melding of theory and empirical work.

Orley Ashenfelter:

And some of the results from that survey were very influential, I think. What would you say were the primary ... What did you learn mainly from it?

John Pencavel:

Somebody else was going to write ... Mark Killingsworth, I think, was going to write a paper that focused on the supply of women to work. Mine was focusing on the supply of men to work. I did come to the conclusion that the response of men in their work to the key variables was much less responsive than many had believed. So, for example, most of the estimates, when sort of arranged and organized, most of the estimates suggested that when real wages change for men, the response of men in terms of

whether they work or not, and whether they're going to work more or fewer hours, was pretty small, that a great deal of effort had been applied to a relationship that, I think, is ... that the male's work behavior is not very responsive to changes in wages.

Orley Ashenfelter:

I think that was the conclusion many people understood that you drew, and it was controversial, at least in part because lots of people interested in tax reforms like to believe that they'll pay for themselves.

John Pencavel:

Yes.

Orley Ashenfelter:

And the implication of your work was that that was not likely at all.

John Pencavel:

That's exactly correct.

Orley Ashenfelter:

Yeah, so I think it was important. I do want to ask you, we'll get to trade unions in a second, but because we're talking about labor supply, I know that you were involved in the Seattle-Denver Income Maintenance Experiments, and no one has discussed those in the podcast we've talked about so far. I wonder if you could tell us a little bit about what those were like. Many people don't realize that the use of field experiments in economics far predates what has been done in the last decade or two, where some people seem to think that they were started in the last decade or two, whereas these income maintenance experiments existed many, many decades ago.

John Pencavel:

Yes.

Orley Ashenfelter:

What was your involvement with them?

John Pencavel:

I joined the research in the early 1970s, I think it was. There had already been experiments in New Jersey, I think, and maybe in Pennsylvania, and there were to be more experiments in Cary, North Carolina, as I recall. But the Seattle and Denver Income Maintenance Experiments, I think, Sime Dime they were called, were the largest, at that point, of these experiments. And in effect, just like some medical experiments ... that families, households were selected and placed into two different bins – controls and experimentals. The experimentals were given different budget constraints, while the controls did not face new budget constraints, though they were interviewed regularly about their work.

The idea was to do what is nowadays called difference-in-difference models. They compared the labor supply behavior, the work behavior, of households before the experiment, then work behavior after the experiment. These experiments lasted three years or five years. Some were told, in fact, they'll be on a 20-year experiment, though I don't think that actually materialized. So, that one difference was the difference of the same household in one period from another, and the other comparison, the other

difference was the difference between the controlled households and the experimental households. And it was very expensive, of course, but it collected a huge amount of data that I know that economists are still using to this day. I had a student, in fact, I think he visited Princeton for a while, David Price, was it? And he used those data to look at some long-run responses to these experiments.

Orley Ashenfelter:

Now, you wrote a paper about some of this. I've forgotten what it was. What did you do?

John Pencavel:

Well, I did several things. Well, one thing I did was, a few people, quite fairly, questioned whether there was much tax evasion. These negative income tax experiments were designed to change the budget constraints of workers, and some suggested that the participants were able to avoid these taxes or changes in their incomes and wages. And so, one thing I did was to try and determine whether that was the case. I didn't think it was, in fact. I think it was fairly well-executed, these experiments, and so that concern, it'll be bold to say there was no such evasion, but I don't think that there was such an amount of evasion as to vitiate the results.

Orley Ashenfelter:

I know you wrote several papers, or at least participated in the writing of several papers, that came out of that experiment. Is there one result from the experiments, or from that experiment, that strikes you as the most important?

John Pencavel:

Well, again, I thought that women may be more responsive to changes in their work environment and their budgets and their wages and their non-wage income and taxes than men, but men, again, were pretty unresponsive. So, that again, I would think that in general the experiments that I was involved in suggested, well, confirmed what the non-experimental literature that men workers, their hours of work and whether or not they work, were pretty unresponsive to changes in their wages and their non-wage income.

Orley Ashenfelter:

I'm glad you talked a little bit about that. I think we should turn to your work on trade unions. You've spent a long time thinking about trade unions, and I know a special topic you like is worker cooperatives. In fact, I remember a paper about plywood cooperatives in particular.

John Pencavel:

Yeah, you should know that. That's right.

Orley Ashenfelter:

And there's a book, of course, papers as well, about trade union behavior. I'm not sure, it's a big topic, but I'm curious, what was your motivation first in spending so much time in studying both worker cooperatives and trade unions?

John Pencavel:

Perhaps because of my background. I've had, I would say, some prior, what Schumpeter called pre-analytic vision. I've had some, that is before any analysis, some sympathy for workers. They tend to be, first of all, had lower incomes than employers or the owners of firms, so that sympathy translates into, well, why shouldn't there be organizations that represent their interests, and therefore some device to allow workers to combine in presenting their work preferences to employers? So, in that sense, I think trade unions present a very interesting problem for society because if, as I see as reasonable, workers should be allowed to combine to present to employers their wishes, their preferences, that seems entirely reasonable. But at the same time, it's quite possible that these combinations of workers can accumulate so much power as to have great costs on society. Like any other organization that accumulates a lot of power, they could be beneficial, and they can also damage things in society.

I've always found that that balance to be an interesting one, and finding that balance is not easy. I got particularly interested in trade unions in the 1970s, because the 1970s was a particular turbulent time for trade unions in Britain. Indeed, in 1979, there was a general election that was held while strikes of dustmen, garbage workers, resulted in London being inundated with garbage left on the streets. And the election turned on ... Well, one election in the 1970s, the line was, "Who governs Britain?" In that election, the voters said "trade unions." But then in 1979 with Margaret Thatcher, they changed and voted for a government that was going to tame the power.

I mean, these unions were, indeed, the ones that caused cost to society were public sector unions that were monopolists of labor. The coal miners, the steel workers, the garbage workers, they were all unionized, as required by the codes of nationalization. The public sectors that were nationalized by the Labour Party, Labour government after the Second World War, their founding codes required them to recognize and bargain with their trade unions. It was a classic bilateral monopoly. Monopolies were created, monopolies in the product markets, and they bargained with a single union, and it was a classic bilateral monopoly. I mean, this harks back to Edgeworth, and who was the writer in the 1920s who wrote about ... Bowley, Arthur Bowley wrote a lovely paper in the 1920s about bilateral monopoly, and he's-

Orley Ashenfelter:

In fact it's called the Bowley-Edgeworth empty box.

John Pencavel:

Yeah, that's right. That's right. So, that was an example of trade unions accumulating, in my view, where the costs of bargaining were felt not by the employer, neither by the workers whose wages were being negotiated, but the general public. What was needed was some mechanism by which this damage to society could be reduced.

Orley Ashenfelter:

We're coming to the end of our podcast. One final question I'd be curious about that I think others may be too. There are now some nascent efforts to unionize American workers in a few areas. Now, I wouldn't say it's a great deal of unionization effort going on, but there's some. What's your view of that, like the unionization of Amazon, Starbucks, et cetera?

John Pencavel:

My sympathies pretty much are with the workers and the unions ... Amazon is a monopolist, virtual monopolist, and it certainly has market power, and in dealing with its workers it can set wages with little constraint. I think their market prices are taken as given, and they impress that upon their workers. So, I

think that it's going to be difficult for unions to regain what they once had, but I sympathize with the effort, but I'm not confident that it will succeed beyond a few areas.

Orley Ashenfelter:

Okay, that's excellent. I think it's good to have your view about that. Not everybody likes to speak about that topic, but I think it's very nice that you did it. It's been a great pleasure to have you here today. Our guest today has been [John Pencavel](#), Levin Professor of Economics, Emeritus, at Stanford University. 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](#). I'm your host, Orley Ashenfelter. Thanks for listening.

Announcer:

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