

TRANSCRIPT

The Work Goes On

Guest: Michael Piore

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Michael Piore:

The system created by the internal labor markets was very rigid. And in an economy where there's a lot of flux and uncertainty, there's a real clash between the rigidities of the institutional internal labor markets and the requirements of the economy.

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 [Michael Piore](#), who is the David W. Skinner Professor of Political Economy, Emeritus at the [Massachusetts Institute of Technology](#). He is renowned for his work in labor economics and especially for his work using institutional and non-traditional tools for the economic analysis of labor markets. Mike, welcome to [The Work Goes On](#).

Michael Piore:

Well, thank you. Glad to be here.

Orley Ashenfelter:

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

Michael Piore:

Well, I grew up partly in Washington DC and partly in New York City. I went to high school in New York City, and I was born in New York, so I feel definitely a New Yorker.

Orley Ashenfelter:

What did your mom and dad do?

Michael Piore:

My dad was a physicist. He worked for the Navy at the Office of Naval Research when we were in Washington, and then he was Director of Research at IBM, and my mother was a health economist. She had been a union organizer before I came along.

Orley Ashenfelter:

Yeah, and married to someone who was an executive at IBM. Sounds interesting. Where did you go to high school?

Michael Piore:

I went to the Riverdale School in New York.

Orley Ashenfelter:

Now I know you went to Harvard. How did that happen?

Michael Piore:

I don't know. Once you apply to Harvard, that is I put it on my list of colleges, even though I definitely didn't want to go there. But once you get into Harvard, the pressure, and this is true not just of me but everybody I've ever known who had to face a choice, the pressure becomes intense for you to go to Harvard. It's a place that people think you're crazy to turn down.

Orley Ashenfelter:

Yeah. Where did you want to go?

Michael Piore:

I think I wanted to go to a state university. My parents went to Wisconsin and I...Wisconsin or even Berkeley would've made me very happy, but in the end, I stayed at Harvard. I was at Harvard for undergraduate and my graduate education.

Orley Ashenfelter:

Well, now you must have liked it enough to stay on.

Michael Piore:

Well, it's Harvard. I actually don't like Harvard. And when I finally left, I thought, "If I don't get out of here now, I'm never going to get out of here."

Orley Ashenfelter:

That's a very blunt comment. And those were always appreciated, especially by people who didn't get into Harvard. Now, who was your... I think John Dunlop was your dissertation advisor.

Michael Piore:

Yeah, Dunlop was my supervisor.

Orley Ashenfelter:

There have been other people that we've had interviews with who've had him as an advisor, including Dick Freeman. I'd met him a few times. I always thought he was kind of a formidable, maybe scary person. What did you think?

Michael Piore:

Well, I mean I share those feelings, although he brought to the table or to your education a range of experiences and places he had been involved with that nobody else had. So, you felt that as if you were doing theory, somebody else could be teaching theory, but nobody else could teach labor the way John taught it.

Orley Ashenfelter:

What was your dissertation about?

Michael Piore:

My dissertation was about the impact of technological change on manufacturing, a subject that has come around again and again, but I worked with Peter Doeringer, and we were working on internal labor markets and in the end, out of our theses, we produced the internal labor markets book.

Orley Ashenfelter:

I wanted to talk about that first. Before we get to it, I actually have a copy right here, [“Internal Labor Markets and Manpower Analysis.”](#) You probably would change that last half of that title if you were doing it today.

Michael Piore:

Definitely, but it would a more awkward title.

Orley Ashenfelter:

But this copy, by the way, is from our library. It's actually, you'll be interested to know. It was Alan Krueger's copy and he read it, so at least it looks like it's been read by somebody. Anyway, I'll come back to that, but I wanted to ask you before we get started something I'm curious about. You've written, I don't know how many books, maybe seven or eight, and this book, the internal labor markets book, actually a hard copy of the original with the new introduction, it costs a couple of hundred bucks. It's a collectible item here now. It's more than a book.

Michael Piore:

Well, it's gone through several different editions and it may be available at different price points.

Orley Ashenfelter:

Can I ask you, so I mentioned this because I'm curious, before we start to talk about that book, you have mostly communicated there's some exceptions I know, I saw the dissertation article that was in the quarterly *Journal of Economics*, but generally speaking you have communicated in economics through books, which is pretty unusual for an economist. How did that come about?

Michael Piore:

I actually don't know. I mean, that is what I was producing was kind of long manuscripts that were too long for a journal. I mean, I would say the journal articles work best when they're inside the discipline because you use shorthand to explain what the problems were, where you fit into the broader literature and so on. All that's in very short space. Whereas if you're making an argument that is orthogonal to the mainstream of the discipline or something, you have to explain a whole lot more. And so that is, it's awkward to do that in a journal and it's more natural to do it in a book.

Orley Ashenfelter:

In a form of a book. Yeah. Now the internal, it is true the “Internal Labor Market and Manpower Analysis” book does have a little bit more of the character of articles put together, but I think that the basic idea in this... there's... the copy I have here is with the introduction in 1985, so it was a little bit later and there's a very long introduction, second introduction to the book that explains the basic ideas, but also goes through some critiques that were made of it. Could you explain very briefly the notion of internal labor markets and the duality that you take to be a part of that?

Michael Piore:

Well, the duality was a vehicle for later research, sort of came, emerged from later research. The basic idea of the internal labor markets, well, I mean I guess you go back, it was written at a time when markets, that is economics was about markets. It was about markets and canes and the internal labor market book argued that the critical parameters of behavior were those which governed internal allocation of labor within the firm, and that was done administratively rather than in response to market pressures. And so one had to understand the internal dynamics of the labor market within the firm.

Orley Ashenfelter:

I don't think actually that anybody disagrees with that. Now, one of the interesting comments you make in the introduction is the question of how it came about, what's the reason why internal labor markets work that way. But I think the idea that big structures, and I realize that when you were writing many of those big structures were unionized. Today of course they're not. But even a big company like Google or any of the Silicon Valley companies has an internal pay structure, which has come to light actually in a way that I wanted to ask you about. The way it's come to light is in the course of some antitrust cases; one in particular involved high-tech Silicon Valley activities over a decade ago.

And one of the ways in which economists establish the impact of say no poaching agreements is by the notion that the entry level jobs or the jobs where there's movement from one company to another, if you can suppress that, you ultimately can suppress wage rates in the whole structure. So that idea actually has come back to life in a somewhat different form. Did you ever think about it that way, that it would mean that there could actually be anti-competitive behavior that would actually be much easier to enforce?

Michael Piore:

Well, I don't think I would've put it in quite those terms, but I think that the whole economy operated in the 1950s and in the early '60s, it wasn't just wages which were administered. It was prices that were administered, relations with suppliers which were administered. The whole structure of the price system was basically an administered system. And I guess I'd have to go back and rethink that whole set of issues, but I think the notion that you could understand what was going on here through markets in some ways was or is a mistake that is, if you look back, say at the 1950s, the whole wage price structure was relatively rigid. That is the key relationship that we look back on now, is the fact that worker compensation rose at the same rate as labor productivity. I think it's difficult to explain that through a set of institutional arrangements that involved the market as the key territory in which all this was taking place.

Orley Ashenfelter:

That's a very interesting point because that used to be something we assumed was the case. In fact, I remember closing models of aggregate behavior by assuming that productivity growth was equal to real wage growth. And of course that relationship doesn't exist anymore.

Michael Piore:

And I don't think that is the relationship now. There's this kind of nostalgia for it.

Orley Ashenfelter:

Yeah, I agree.

Michael Piore:

And I remember Bob Solow explained it as a natural phenomenon. It was a product of nature. I mean, for me, that is the fact that it turned out not to be a product of nature is a profound revelation because it must have been a product of something. And so, I think it was a product of a set of institutional arrangements, which I've been reviewing for another set of reasons. The reason that productivity, worker compensation, and the aggregate rate went up at the same rate of productivity was also that the wage structure was pretty rigid. If you raise the wage of... this was a basic lesson of Dunlop, if you raise the wage of bricklayers in Boston, you were in the end going to have to raise the wage of bus drivers in Los Angeles.

Orley Ashenfelter:

That's pretty far. That's an extreme example, but...

Michael Piore:

It is. That was the... And I actually think it probably wasn't quite true, but it does emphasize the nature of Dunlop's theories of wage determination, which I guess I inherited.

Orley Ashenfelter:

It's an interesting point actually. I hadn't really thought about it until you mentioned it that it may have been that natural evolution of the real wage as productivity was something that was not market driven, which is kind of very interesting to contemplate. And I think the dual structure of course came about, I think because the idea was that there were some markets that didn't operate with internal labor markets, and that was supposed to be the other sector as I understand it.

Michael Piore:

Right. Well, I guess the argument was that we ended up developing, or that I've ended up... I'm not sure where it comes into the things that I've written, but the system created by the internal labor markets was very rigid. And in an economy where there's a lot of flux and uncertainty, there's a real clash between the rigidities of the institutional internal labor markets and the requirements of the economy. And that in the end, a set of arrangements were created in which the variable portion of demand was kind of subcontracted, if you will not literally necessarily, but send off to this other sector of the economy. And the other sector of the economy consisted of workers who were a lot more flexible to use and a lot less committed to employment in a particular job or place.

Orley Ashenfelter:

That kind of conception of the internal labor market really took its... it went further. It went into business schools because now when people talk about human resource administrators, they're basically talking about people who administer an internal labor market and that's part of the curriculum, I think, in many programs where you learn about human resource allocation. You wrote so many books and I wanted to cover a little bit more than just this topic. One that's hot right now, super hot, you actually wrote a whole book about immigration.

Michael Piore:

I did, and that's one of my favorite books.

Orley Ashenfelter:

Is it? Why is that?

Michael Piore:

Because it was so revealing to me actually to study immigration. I took a leave after I was and the faculty for four years and I worked in Puerto Rico as an aid to the governor, and when I came back to Boston, I thought, "Boston is full of Puerto Ricans. Is that because I was attuned to it or is something else going on?" And so, I started to explore the jobs that Puerto Ricans were holding and so on, and who held those jobs beforehand and what was going on. And basically, it appeared that employers were recruiting Puerto Ricans for the jobs in Boston, and they were recruiting them from the most backward parts of Puerto Rico, something I never would've known had I not been there myself.

And it seemed like this backward labor force was somehow necessary to an industrial society. And what argument of the book was that it's necessary because these people are temporarily attached to Boston. They're basically short-term migrants who are going to go home. And because of that, they don't care about job security nearly as much as national workers do. And the result is that they're willing to accept insecure jobs and employers kind of shoved off the insecure part of demand to this secondary labor force.

Orley Ashenfelter:

Of course, Puerto Rico is an unusual example because you don't need a passport to go from Puerto Rico to the United States. But the immigration issues now are really much more connected. We'll come back to Puerto Rico by the way, but on a slightly different topic, but the hot issues now are about other Latin American countries who seem to have people that are also trying to escape. But I guess they fit into your categories of potentially workers who might take jobs others wouldn't.

Michael Piore:

Well, it's partly that, and if you interview a lot of the Central American migrants, they don't think of themselves as permanently settling in the United States, despite the pictures on the evening news. Migrant labor forces dominated by young men who were sort of planned to work in the states for a short period of time, maybe a couple of years, and then with the savings to go back into Guatemala say and invest in their own farm or so on. Now that you have this other stream of migrants, which are family reunification in a sense, or they're that are coming with small children and are running away both from violence and from natural disasters, but buried in there is this temporary migration. And while in Puerto Rico it was easiest to be temporary was also true of Mexican... I mean in the old days, even today, there's a enormous flux on the Mexican border of people moving back and forth.

Orley Ashenfelter:

A lot of people don't realize that we have this Mexican migration project here, which has a long history of collecting data on Mexican migrants. They do it from the Mexican side, so there's nothing illegal about their coming to the US, but in reality there are very few Mexican migrants anymore. They come through Mexico, but they're a Mexican problem because of that, but they're not Mexicans who are coming through. It's others. And that's absolutely right. Did you talk much or contemplate the problems of the people that are displaced in your book about migration?

Michael Piore:

No. You mean in the states?

Orley Ashenfelter:

Yeah.

Michael Piore:

Well, I think that's a different story and a more complex one and one that I've never tried to... I mean, I have my hunches, but I've never really tried to work that story out.

Orley Ashenfelter:

Let's take another book. You also did a book and for a while I thought you had written it with my old colleague, Richard Lester, but it turns out that Richard K. Lester is not the same as the Richard Lester we had at Princeton who you probably knew, but this book was about innovation. You wrote it with an engineer. That book is not strictly speaking, I wouldn't say in the mainstream of labor economics. It seems to be a much broader topic. What brought you to write about that?

Michael Piore:

MIT has had various what they call commissions that worried about the future of technology particularly in manufacturing and keeping up with the... well with the Joneses, which at the time it started out was the Germans, then the Japanese, now it's China. Richard Lester ran a research institute called the Industrial Performance Center, and they really were the centerpiece of a lot of these commissions and I was affiliated with that group. So, they had finances and so on to look at projects in general.

We argued in the "Second Industrial Divide" that it was the end of mass production, and that product innovation was going to be much more important than process innovation.

So, I became interested in what's the nature and organization of product innovation. And so given that the funding was there, we did a series of case studies of the product innovation looking at several companies in the same area. The one that was most kind of emblematic of that series of research was studies of the cellular telephone. I could go in great length to what we got into in terms of theory. It turned out that one could think of product innovation as having much more to do with something like the evolution of language than of the way we generally think of innovation as a product that you invest in and get an output out of.

Orley Ashenfelter:

It's interesting because of course the evolution of cell phones is still going on and some people think it may have come to a kind of equilibrium without huge growth in the various features. So, you did mention the "Second Divide," so we've actually covered that book too. There's one book I have never

read or even tried to find actually that you wrote, which is really, I would say kind of more general than anything we've discussed, which is about individualism.

Michael Piore:

Yes. That actually, if you had to pick my favorite book, that would be "Beyond Individualism," and it basically tried to develop an argument that economic activity was a communal activity and that it evolved much more like language than it did by exchange. In a way that grew out of this for me, the study of innovation because the question that was raised by innovation is, where do new ideas come from, how do they get disseminated and so on. It's much more in the tradition of Schumpeter, I think.

Orley Ashenfelter:

Because that's, I think for an economist, a book of that type is pretty unusual in that it's at a much more general or abstract level in some dimensions than what we normally see. Well, we're coming to the end of our podcast, but I have one more thing I want to ask you about, and you've led into it, and that's Puerto Rico. I actually read your article in *Foreign Affairs* about the organization that was set up to, I guess, deal with the debt crisis that Puerto Rico had come into, and I hadn't quite realized why you knew so much about it, but now you now explained that you had been working for the governor of Puerto Rico at the time. Can you explain what was the point of that article? But also I'd be curious, Puerto Rico is still in some state of flux and difficulty. How well do you think the U.S. government has handled that?

Michael Piore:

I'm out of touch with Puerto Rico, so I hesitate to really give a definitive opinion. I think that the Trump administration that... Well, I mean, all right, so the way to put it is that there were a lot of problems with the government of Puerto Rico, not so much corruption as cronyism in terms of awarding contracts and a failure on the part of a series of governments to control the issuing of the national debt, of the Puerto Rican debt.

And then when Puerto Rico got hit by a series of natural disasters, then debt which we previously had seemed tolerable, suddenly became intolerable, and you had sort of a run on the... the equivalent of a run on the bank. And then Trump sort of never let Puerto Rico get the kind of aid that states were getting to deal with natural disasters. So, all of those things cumulated.

The economic studies said that the problem was that we imposed the U.S. minimum wage on Puerto Rico and the wages gradually rose until Puerto Rico, which was once the low wage enclave within the U.S. economy, became too close to the mainland wages.

And at the same time, the opportunity to enter the U.S. market that Puerto Rico had exclusively as a low wage area was extended to the rest of the world in a sense. And so, Puerto Rico became, on the eve of these various disasters and kind of the corruption and catching up with it, it was unable to really attract enough industry to keep full employment. The one thing that I think that diagnosis leaves out is that you had this enormous movement of people back and forth between Puerto Rico and the states, and they were essentially working in similar jobs in Puerto Rico that they were in the states. And so, you had people coming back from the states because for whatever reason, from jobs which were paying 15 dollars an hour to Puerto Rican jobs which were paying 5 dollars an hour and just that disparity between the wage rates on similar jobs was just sociologically unsustainable. The pressure to raise the wages towards the U.S. level was socially too strong to resist.

Orley Ashenfelter:

I always use Puerto Rico when I teach about labor economics because of the free mobility. There are a few other, I don't know if you want to call them colonies of the U.S. like Guam and American Samoa and so on that have that similar ability. Of course, they're very, very small for workers to freely move without passports between the two.

Well, Michael, it's been just a pleasure talking to you today and I really appreciate your coming on, and I thought we had a wonderful conversation. Our guest today has been [Michael Piore](#), the David Skinner Professor of Political Economy, Emeritus at [MIT](#).

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 [Robert Hall](#), the McNeil Joint Hoover Senior Fellow and Professor of Economics at [Stanford University](#). I'm your host, Orley Ashenfelter. Thanks for listening.

Announcer:

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