

TRANSCRIPT

The Work Goes On

Guest: Steve Nickell

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Steve Nickell:

You always had to think about the future and where things might be going. And you wanted to make interest rate decisions, not based on what's happened to inflation in the last six months, but what you think's going to happen in the future. And the labor market is very important in that regard.

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 [Professor Sir Stephen John Nickell](#), who was once the warden at [Nuffield College at Oxford](#), and also Professor of Economics at the [London School of Economics](#). He is renowned for his work in labor economics and especially for his work on the macroeconomics of labor markets. Steve, welcome to [The Work Goes On](#).

Steve Nickell:

Thank you.

Orley Ashenfelter:

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

Steve Nickell:

I was born in a suburb of northwest London at the tail end of the Second World War. The only excitement I was told was when a V1 rocket landed close enough to our house to blow off the French windows. But since I was only a few months old, I forgotten all about it. But it was very exciting. My auntie fell on top of me.

Orley Ashenfelter:

It does sound like... But one of the things you missed, I guess. You don't remember it very well.

Steve Nickell:

There I was. I lived in a suburb and my father was in the war and he was in the far east and he didn't return home until 1946 when I was two years old. And my mother reported that I said, "When is that strange man going to go away?" But he didn't go away. And so there we were. My brother, who is eight years older than me, was also living at home at the time. And we had a very boring kind of life, really. I was brought up as a Roman Catholic. And so I was an altar boy, which was very entertaining because if

you're an altar boy, you are up there performing on the stage rather than sitting in the audience, which is much more interesting. Makes church much, much more interesting I thought at the time. Anyway, I went to school. I used to cycle to school every day. And I was pretty clever, I guess. And so after I finished school, I got a scholarship to Cambridge University to study mathematics.

Orley Ashenfelter:

I just have to interrupt you for one second. Where did you go to secondary school?

Steve Nickell:

I went to a school called Merchant Taylors'.

Orley Ashenfelter:

What is Merchant Taylors'? Is that a school for tailors?

Steve Nickell:

It was actually in the 17th century. Subsequently, it developed into a school for ordinary people. Merchant Taylors' is one of the livery companies in the City of London. And the school was founded in, I don't know, the 16th century and had a few famous old boys. One of them was Edmund Spenser who wrote "The Fairy Queen," but otherwise it was a relatively ordinary school. It was all boys, of course.

Orley Ashenfelter:

Oh boy. I saw it was the Merchant Taylor, so the Merchant's Taylor school. I was surprised by that, but now I understand better. How did you happen to go to that school?

Steve Nickell:

I went there because my parents sent me there and I got a scholarship so they didn't have to pay any money, which was very good for them. And I had a good education. We had some very good maths teachers and I was particularly good at mathematics. And I played a lot of sports and did the usual stuff. Nothing very exciting. My father was a bank clerk. He used to cycle to work every day and he cycled home for lunch wearing a homburg hat, which was a sort of, and a suit of course, as befits a bank clerk. He was pretty tough character actually. My mother was a housewife. I led a pretty blameless life, I would say.

Orley Ashenfelter:

And then next you go to Cambridge.

Steve Nickell:

Indeed, and I studied maths at Cambridge and that was also good fun. I think I probably wasn't the most strong student in the sense that I guess I spent too much time drinking and womanizing and so on. I wasn't a particularly distinguished student, and as a consequence, I had no real plans for what I was going to do after I left university. There I was, I ended up as a school teacher and I taught mathematics in a place called Hendon, which is in North London. And I suppose this was a co-educational school, and I really rather enjoyed myself there. Played a lot of tennis. We used to play field hockey in the winter, but teaching was, well, you taught 20 hours a week. That when I eventually ended up in academia, I thought that the teaching was pretty negligible compared to what I was used to, but I decided after I'd been

there for three years, the only prospect if you were a school teacher was, especially if you're a maths teacher, you tended to end up as a headmaster. And being a head of a secondary school.

Well, the headmaster of the school I taught at was deeply unhappy. And so, I thought to myself, do I want to struggle for many years to rise to the height of being a headmaster only to be deeply unhappy? I thought I better do something else. What I decided to do was... when I was at Cambridge, I had a couple of friends who did economics. And their description of economics in Cambridge, I thought it sounded rather entertaining subject. I don't know if you know much about Cambridge economics in that era, but just to give you an example, I once asked one of them, "What was the most important work in economics?" And the answer, believe it or not, was *The Production of Commodities by Means of Commodities* by Piero Sraffa, which I went away and looked at. I thought it was incredibly boring and incomprehensible work, but that was Cambridge economics in those days. But I thought in general, economics sounded quite good fun.

So, I applied to the London School of Economics to do a master's degree in mathematical economics and econometrics, that sounded about my *métier*, and believe it or not, they accepted me. I turned up at the London School of Economics. And for this course, which was a two-year course because I had never done economics in my life. And believe it or not, I was interviewed by three people on my first day. One of them was Terrance Gorman. You probably met Terrance.

Orley Ashenfelter:

Yeah. I actually knew him fairly well.

Steve Nickell:

There you are. A wonderful man, Irishman, very eccentric. After about half an hour with him, I sort of begin to wonder what was in store for me. He said, "Well, you should go down and talk to Frank." Frank was Frank Hahn. The next person I saw was Frank Hahn. And after half an hour with Frank Hahn, I thought, wow, this is pretty strange stuff this economics. But luckily, I then was passed on to Dennis Sargon, who was an extremely sensible, clever man, and he sort of calmed me down and said that despite the possible first impressions I got, that you will find this course both rigorous and entertaining. I did the course. I spent the first year learning economics basically, and then the second year I learned a lot of econometrics from Dennis Sargon and Jim Durbin. Jim Durbin, I thought, was pretty cool because it's not often you get taught by someone who has a test named after them.

Orley Ashenfelter:

That's right.

Steve Nickell:

He was quite a great character. But I learned lots and lots of economic theory. In my second year, I was taught by Frank Hahn, Terence Gorman, Herbert Scarf, Michio Morishima, Joe Stiglitz, who was visiting Cambridge at the time but gave some lectures down at the school. And so, I had pretty good grounding in really high theory, which served me quite well, subsequently.

Orley Ashenfelter:

You certainly had a couple of very eccentric people to talk to at the beginning. I did know Gorman some. In fact, I still remember going to talk to him once to ask him about, I was working on some problems having to do with the rationing and asking him about what theoretical papers have been written on this.

And he said, "If I read as much as others, I'd know as little. So, you should just go solve the problem yourself. Don't worry about it." He claimed Edmund Burke said that, that he never read anything. He read as much as others, he'd know just as little. I did go off actually, and I followed his advice. But those are all eccentric people and of course very famous characters from that period. How did you then get onto the faculty and start doing research?

Steve Nickell:

This would seem, I guess to present day economists would be pretty extraordinary. What happened was I was doing pretty well on the course, and Frank Hahn came to see me one day towards the end of the course, and he said the following. He said, "We've just advertised for a lectureship, and I'm on the committee. And the committee met and we looked at all the applications and I said to the committee, I said, young Nickell's better than this lot, so I suggest you apply."

Orley Ashenfelter:

He always called you young. He did that with me too, young Ashenfelter.

Steve Nickell:

Oh, absolutely. I applied for the job, and I got it. And then after I got the job, Frank came to see me and he said, "Well, I've got you this job. What you've got to do is in five years time, I would expect you to have published at least two really good papers. If you haven't published these two really good papers, I'll personally ensure that you are sacked." And that was the sum total of my research training.

Orley Ashenfelter:

I've never heard that story. Frank Hahn is someone who would do that. That's the trouble. It's all true.

Steve Nickell:

Absolutely. There I was.

Orley Ashenfelter:

You're one of the few economists I know who's done well for themselves. You don't actually have a PhD.

Steve Nickell:

Oh, no. Absolutely not. I mean, as I say, I had no research training. Merely a threat. And so I had no idea what to do. Of course, I had to give lectures and do a lot of teaching. I found the economics department very congenial because they were very egalitarian. Everyone in the economics department taught the same number of hours. We all taught 120 hours a year. Of course, after my school teaching experience, this seemed to me like an absolute dog walk. And so you had plenty of time. And I suppose that the thought of doing research, well, I had all these examples of papers that one reads. I thought, well, I better write something like that. I had a few sort of ideas, and I eventually ended up writing about irreversible investment because the theory of investment in those days is this somewhat curious notion that people invested up to the point where the marginal product of capital was equal to the real rate of interest, suitably with prices and so on.

But this theory, there's nothing about the future. It seemed obvious if you think about investment. I mean, it's quite obvious that when people make investment decisions, they have to think about the future. But here was a model of investment which didn't seem to mention the future. I discovered it

from a paper from Ken Arrow that, of course, if you make investment irreversible, then it forces the future into the current decision. Anyhow, I wrote about that. I wrote most of the paper actually in Hanover, New Hampshire where I spent a very happy summer listening to Herbert Scarf and his mates talking about practical methods of finding the equilibrium in the economy. And I wasn't really interested in that, but I liked the idea of spending some time in North America. But I had plenty of time to write, and I eventually finished this paper which turned out to be good enough to be accepted as the lead paper in the 1974 January issue of the *Review of Economic Studies*. And so, I was off. I just wrote more papers on this kind of area. None of it had anything to do with labor economics [inaudible 00:16:11]-

Orley Ashenfelter:

No, I was going to ask you.

Steve Nickell:

I knew nothing about labor economics.

Orley Ashenfelter:

No. And eventually, I think probably your best known work, I would guess is [the book](#) with the two Richards, Jackman and Layard. Layard did one of the podcasts earlier and talked about it too. At some point you were all at the London School of Economics. At some point the labor market must have suddenly become an issue of some interest, and then you teamed up with Layard and ultimately this book came about. How did that happen?

Steve Nickell:

Well, how did I get into labor economics? Well, the answer was actually because I played soccer. The LSE economics department had five-a-side soccer matches every week. And one of the key players in this group was Dave Metcalf. I used to play with Dave and got very friendly with him. He was writing some paper, and he needed some econometric help. I offered to help with the econometrics. And so I got into this paper, and then Richard, I think lived next door. He always claims that he heard me sort of talking loudly to Dave and banging the blackboard. And he came round after I was banging the blackboard 'cause he could hear it very clearly from his room next door. And he came in and we started talking about labor economics and some interesting things. And so, then I got into labor economics, and I joined up with Richard and did some work on duration and so on. And I got used to dealing with people who gave us money to do things, which is very important. You needed research assistants if you were going to do this kind of stuff, I discovered.

And tagging along with Richard was very useful because Richard was very good at persuading people to give us money to do research. That's how I kind of got into it. And so, Richard and I and Dave wrote a few papers and so on. And so we're getting up to, well, of course I came to Princeton in 1979. 1979 was a big year, of course, because Mrs. Thatcher became Prime Minister in 1979. And by 1982, '82-'83, unemployment in Britain had rocketed absolutely skywards. And the Treasury used to put out a theory when asked why unemployment was so high. They used to tell the world that unemployment was high because real wages were too high, which of course is the sort of nonsensical statement since you can hardly get a variable which is more endogenous than real wages. That was not very helpful. And the Treasury were very worried about unemployment. And one day, Terry Burns and one of his juniors... Terry Burns was the chief economist at the Treasury at that time.

He called Richard and I in and he said, "We want you to investigate this subject and we want you to write stuff, something which would explain in relatively straightforward terms why unemployment was

so high." And so Rich and I thought this was a challenge. We did this. And eventually, of course, after much sort of false starts and various papers we used to write which were not wholly satisfactory, we got Richard Jackman on board, and we decided that we'd write a book which would cover the whole subject. And that's roughly how it came about. But we were prompted by a request from the Treasury.

Orley Ashenfelter:

That's interesting. I wasn't aware of that. I still remember actually visiting the Prime Minister. Do you remember this? Richard Layard [inaudible 00:20:44].

Steve Nickell:

Of course. That was before then.

Orley Ashenfelter:

Yes, the Harold Wilson, I think.

Steve Nickell:

That was when Jim Callahan was Prime Minister.

Orley Ashenfelter:

Oh, Callahan, sorry. Got it backwards. Yes.

Steve Nickell:

Yeah.

Orley Ashenfelter:

Yes.

Steve Nickell:

Yes. This was in the late seventies.

Orley Ashenfelter:

I remember it because I showed up with a jacket and tie, the American guy, and you showed up in a leather jacket. I thought that was kind of cheeky for meeting the Prime Minister, but I still remember him saying he would never preside over an economy where there were more than a million British people unemployed, which of course, he did preside over such an economy after all. But I still remember him saying that. Now I have to ask you about something. You've actually then moved on to something which is probably even more unusual for someone in labor economics. You served for many years, six years, I guess, as a part of the Monetary Policy Committee at the Bank of England. First of all, tell me how in the world did that happen that they managed to get a labor economist on there. And then you have a reputation, at least somewhat of a reputation for being a little curmudgeonly on this committee and not necessarily going along with all the decisions they like to make. Tell us about it.

Steve Nickell:

Well, first of all, you have to understand how I got on. I think it must've been because I'd already met Gordon Brown. Gordon Brown was the chancellor at the time, but my meeting with Gordon Brown is quite interesting, sort of highlight. In Aspen, Colorado every year, a bunch of bankers meet and pontificate and discuss things. And in 1996, they decided that they wanted to spend a day talking about the labor market, which is pretty unusual for bankers. They wanted a European, so they asked Larry Katz who they should get. And Larry Katz said me. I went off to Aspen with the whole family, in fact. Two children, Sue came. And Gordon Brown was there. We had a day on labor markets, American labor markets and European labor markets. And it was quite a good day. But this is the high point of my career because we used to sit in the Aspen Institute. We sat in this room and there were tables with three people at each table, and I sat between Gordon Brown and Paul Volcker.

Orley Ashenfelter:

You definitely had the top of the mountain there. We should remind people, the Chancellor of the Exchequer is really a Secretary of the Treasury in Britain.

Steve Nickell:

Exactly.

Orley Ashenfelter:

And Paul Volcker at this time was probably Chairman of the Fed or had been Chairman of the Fed.

Steve Nickell:

No, I think he'd finished with that.

Orley Ashenfelter:

Formerly been Chairman of the Fed.

Steve Nickell:

And he was a grand figure. Of course, hugely tall.

Orley Ashenfelter:

And a very big guy. Yes.

Steve Nickell:

Yeah, absolutely. Anyway, Gordon Brown was very interested in how to get people, low-paid people, giving them some more money, namely in-work benefits. That was very lucky because Larry Katz is America's greatest expert on in-work benefits. I introduced him to Larry Katz, and of course, Gordon, a bit like Richard really. He liked to sort of pound away at his subject until he understood it, and I think he and Larry must have talked for about three hours on this subject. Anyway, Gorman must've remembered this because in 2000, I got a call from the Permanent Secretary of the Treasury who was called Gus O'Donnell, and Gordon Brown's assistant, who is called Ed Balls. And they called me up and said, would I go and see them? I went to see them, and they said, "Would you like to be on the Monetary Policy Committee?" I said, "Yeah, sounds excellent, but I'd have to get leave from LSE." They said, "Well ring them up now." I ring the director. The director wasn't there, but I rang the secretary and said this seemed to be good opportunity.

I said to Gus, "Can I think about it?" Well, he said, "Yes, but not for very long because the chancellor wants to announce it in Parliament tomorrow." So, I was appointed to this Monetary Policy Committee. I went to see Eddie George, who was the Governor of the Bank of England and we got on very well. And so by June, I was still teaching at LSE, but I was one day a week at LSE and four days a week at the bank. There I was on the Monetary Policy Committee. It was very entertaining and very interesting. And of course, the great thing about it was it was an executive committee. We weren't advisory. We set the short-term interest rate.

Orley Ashenfelter:

The repo rate. Isn't it called the repo rate?

Steve Nickell:

Yeah, that sort of thing. We set the short-term interest rate, and we had to produce an inflation report every so often and forecasts. And we met once a month, and when we met for the decision making, that was on a Wednesday and a Thursday. We had a long meeting on Wednesday where we discussed the economy and then a meeting on Thursday where we announced our decision. And the way the decision making... it was a voting system and you voted sequentially. And the way it worked was that, first of all, Mervyn King, who was the then chief economist, no, he was the deputy governor. Mervyn King went first. He had the first vote, and then Eddie randomized the remaining votes with him going last. Eddie had a rule, and his rule was that he could never be on the losing side.

There were several occasions where I was convinced that Eddie wanted to go one way but was forced to go the other way because he insisted on being on the winning side. And if you go last, by and large, on most occasions, unless it's four-four... There are nine people on the committee. The most occasions, unless it's four-four, the decision has already been taken by the time Eddie gets to vote.

Orley Ashenfelter:

Mm-hmm.

Steve Nickell:

And so he voted on the winning side every time. Incidentally, it may be surprising, this was a smoke-filled room. Eddie smoked. Eddie George smoked constantly, and another member of the committee called Ian Plendley smoked constantly as well. By the time the meeting was finished, the room was sort of awash with smoke. And Mervyn, who had to sit next to Eddie, hated it, hated the smoking. And even if they was a ban on smoking indoors, Eddie was the governor and he smoked. Eddie finished his period as the governor in 2003, and then Mervyn became the governor. And the day Eddie left and Mervyn took over, "no smoking" signs went up across the bank. And we used to have a lot of meals and lunches and dinners and various things. And in Eddie's time, the meals were quite large. Lots of meat and potatoes and puddings and wine and so on. Anyway, when Eddie left and Mervyn took over, then it was wall-to-wall sea bass.

Orley Ashenfelter:

I have to ask you-

Steve Nickell:

No wine either at lunchtime.

Orley Ashenfelter:

No wine, of course. That's the American way. I'd have to ask you though, after spending six years on that committee, what role did you think labor economics played and what was going on? Did you play a role using the kind of work you had done at the LSE?

Steve Nickell:

Oh yes, absolutely. Well, I mean, the way it worked was that if you wanted to set the interest rate, the idea was you set the interest rate to try and get the inflation to hit the target within two years. And the way it worked was that the Bank, we had huge back up. The Monetary Policy Division of the Bank of England had 105 economists beavering away. Many more economists are in the Treasury. And of course, in terms of inflation and the way it worked, the labor market was fantastically important. And so Eddie was very happy to have someone who had some expertise in this area to help with the decisions. The key thing was the forecast, was trying to forecast, but of course, forecasting as you know, you have models and they produce forecasts, but basically it all boils down to judgment. And so, if you had some idea of what was happening in the labor market, that really did help in producing the sort of judgments that were required to produce an interest rate decision. And the key, I always felt, was you always had to be ahead.

You always had to think about the future and where things might be going. And you wanted to make interest rate decisions, not based on what's happened to inflation in the last six months, but what you think's going to happen in the future. And the labor market is very important in that regard because wage setting is a sort of key part of the whole business.

Orley Ashenfelter:

You did switch careers at some point and become the warden of Nuffield College at Oxford. I have to say warden sounds like someone who guards a penitentiary. At the penitentiary where you lock people up, we call the head of the penitentiary the warden. But I imagine it was a different job at Nuffield College.

Steve Nickell:

Every Oxford college and Cambridge college has a person in charge, and they're called various names. Nuffield and Wadham and various other colleges have wardens, but St. John's, which I was very envious of... The head of St. John's is called the President. And of course, some colleges, they're called the master, and there are various different names. And this sort of historic... Of course, Nuffield, not a very old college. Nuffield was founded by Lord Nuffield, who was William Morris, who owned and ran Morris Motors, which at one time was the biggest car manufacturer in Britain. And at one time he was the richest man in Britain.

Orley Ashenfelter:

It's a strictly 20th century college.

Steve Nickell:

Yeah. Absolutely. I mean, he gave the money and built the college in the 1950s. It was a graduate college as well, which was very nice.

Orley Ashenfelter:

Very distinguished economists there. I visited. There have been a long string of distinguished economists. Is that like herding cats or how would you describe?

Steve Nickell:

Yes. Being the warden, of course, the interesting thing is that the Fellows of the college are the people who make up something called the governing body, and they select the warden. The warden is their employee, if you like. On the other hand, he's in charge and so he has the responsibility for everything. And it involves money, of course, because Nuffield, like many colleges, had quite a substantial endowment, which was grown from the original endowment given by Lord Nuffield. There were investment committees and so on, and there were a lot of good economists and sociologists. I mean, John Goldthorpe was one of the great sociologists at Nuffield. But of course, when I was young... I first went to Nuffield in 1984, I left LSE and went to Oxford and of course, Jim Mirrlees was the star of Nuffield at that time. He was a star economist. He was a sort of great man.

Orley Ashenfelter:

I visited there when he was the warden, I think, actually, of the college. And I always admired him for many reasons, not least of which was his Scottish accent.

Steve Nickell:

He was terrific. I remember I first met him when I was elected to the editorial board of the *Review of Economic Studies* where all the youngsters gathered. Joan Robinson called the *Review of Economic Studies* the children's newspaper, and that was right. In the 1970s when I was around, Nick Stern, Mervyn King, and so on. But Jim was the chairman of the board when I first went there. And our biggest decision we had to make was the price to set, because we ran the journal. I mean, we set the price and Jim said, "When setting the price, how should we set the price of the *Review of Economic Studies*?" Jim's answer was "To maximize world welfare," which I was very impressed with. Of course, the steps from maximizing world welfare to the price of the *Review of Economic Studies* was quite a long...

Orley Ashenfelter:

Way to go. Yes, that's true. It could have been zero to infinity, I guess would be probably the range you'd come up with. Well, we're coming to the end of our podcast, which has been very enjoyable. I have to ask you just one last thing. You've been involved in really the transformation of economics in Britain and probably also in Europe. I remember as a young American visiting, and Britain was really an island of economics by comparison with the rest of Europe. That's no longer true. And the LSE was probably even a bigger island, maybe composed most of the landmass in the island with phenomenal economists by the standards of what we now call modern economics. And you earlier made comments about the Cambridge version. What's your take on the state of economics in Britain now?

Steve Nickell:

Oh, I think it's in pretty good shape. Of course, the top universities for economics in Britain, there're about five or six of them, and they have very good faculty. I mean, the difficulty is always that the siren call of the United States and that the money is always there. A lot of very good economists tend to leave the UK and come to the United States, but I think that economics is in pretty good shape in the UK. I don't see any serious problems. And of course, as you say, European economics has become much more professional over the last 30 years. And so generally speaking, I think it's pretty healthy.

Orley Ashenfelter:

It's been wonderful talking to you, Steve. I can't resist saying this at the end. Our guest today has been [Sir Steve Nickell](#), former warden at [Nuffield College](#) in Oxford and Professor of Economics at the [London School of Economics](#). 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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