

TRANSCRIPT

The Work Goes On

Guest: Bob Gregory

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Bob Gregory:

Think of economics as going into a jungle and looking for new animals. The jungle was the data. It was very, very exciting. Completely different view of the world, and that changed my life.

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 [Bob Gregory](#), emeritus professor in the [Research School of Economics](#) at the [Australian National University](#). He's renowned for his work in labor economics and especially for his work on the Australian labor market. Bob, welcome to [The Work Goes On](#).

Bob Gregory:

Thanks, Orley. I'm glad to be here.

Orley Ashenfelter:

Let's start with a discussion of your background. Where did you grow up?

Bob Gregory:

I grew up in Melbourne. I grew up at the frontier of Melbourne as it were, right. It's sort of a lower middle class, new area. It was established about 1936, so my father bought a house there and that's where I grew up.

Orley Ashenfelter:

You spent your whole life in Melbourne?

Bob Gregory:

Yeah. Up till 23, and then I went to the London School of Economics.

Orley Ashenfelter:

Let's talk about that. Melbourne University, you were an undergraduate at Melbourne and I guess a star student?

Bob Gregory:

Yes, a very star student. And the reason I say very is the most interesting thing in my mind is I was not an exceptional high school student or a primary school student. I was a goodie goodie. So, in the class I was sort of 10th, 8th, but a good student. And I was interested, but I wasn't brilliant, and then something happened to me, which is really special. It changed my life. And that is I got polio. I got polio at 14. I was the last age group to get polio before the vaccine, and I spent a year in bed, and I skipped a year at school. And I went back to school and the headmaster said, "Oh, don't worry, you can start where you left off". And I said, "No, I want to skip a year". Very confident lad. Easy, I said, "I'll skip a year", and of course you're going to know what happens, right? I go back and all of a sudden, I can't understand what's going on. So, I start work. I start studying, and within six months I'm an exceptional student. So, polio changed my life.

Orley Ashenfelter:

I did not know that you had Polio. You must have been just a little bit too late for all the vaccines.

Bob Gregory:

That's right. I was 12 months too late. So 1954. It wasn't a huge crisis for me as a child. My sporting career was finished and all that sort of thing, but it's a huge trauma for your parents, right, because in the beginning they don't know what's going to happen to you. They don't know whether you're going to die. They don't know whether you're going to become an invalid for life. So, it was fairly traumatic for them, but for me it sort of changed my life around in many ways. And I often wonder if I didn't have polio where I would've been because all my life my academic success has been a surprise because your views about life is when you are young. So, I was never a brilliant kid.

Orley Ashenfelter:

There are a lot of people, actually, who become academics who probably otherwise would not have been academics for reasons like yours. I could name several, including myself probably. So, then you went to Melbourne University and I know that you passed some accounting exams. I'm always impressed by anyone who can do accounting. Were you interested in accounting?

Bob Gregory:

Yeah. The other thing you have to learn or understand is that I'm the first in my family that went to school beyond 14. All my family worked basically in the factories or were small businessmen, so I didn't know anything about universities. I didn't even know where the university was, and what do you do for a background like that? You do accounting because that means jobs and business, so I did accounting. But I didn't want to be an accountant, I wanted to be a schoolteacher. But at 15 or 16 it didn't look challenging enough. And so, when the time came to go to the university, the only course I could do was an accounting type course or law because I had no maths. So, they cut me out of other sciences. I had no foreign language that cut me out of the arts. I didn't know about those things and nobody told me. So, it was law or commerce, accounting. And law, by the way, took four years. Accounting took three, so it was obvious. So, I did accounting. But as soon as I got there I switched into economics.

Orley Ashenfelter:

That's very interesting. And I know you were at Melbourne and you were a star student there, but I have to ask you, and going from Melbourne to the London School of Economics, that had to be quite a shock. How did that happen?

Bob Gregory:

It was a shock. The way it happened is that the minute I got to university and became a star student, much to my surprise, I decided that's what I was going to be. I was going to be at the university. I was going to be a professor of economics. I had no desire to leave the country. I thought I knew everything. But it was obvious in those days that if you were going to become a professor, you had to have a PhD, and Australia didn't have PhDs in economics. You had to go overseas. So, I had a choice. I could go wherever I wanted basically because I was a good student. I could go to America and do a PhD course with coursework or I could go to America and just do a thesis, go to England rather, and just do a thesis. And I was married, my wife didn't work, so I said, oh well, I'll go to London, big city, don't have to do any coursework, sit around for two years, get a PhD.

I don't know what that means, but I'll get one, and that's it. When I got there, I was shocked because I actually believed that I knew economics because I was a good student and I taught economics at Melbourne and then I discovered that there was all this mathematics stuff, all the statistical stuff. I didn't know any of this, so it was a shock, but not that big, but it was shock. And LSE changed my economics. Before I went to LSE as a student, I thought economics was about textbooks. So, the best economists wrote the best textbooks. And if you wanted to know about controversy, you compared textbook one with textbook two. That's what I thought. When I got to LSE, I met a couple of people who economics was like a football team for them. It was their life, and it was alive. And this was just so exciting for me because all of a sudden, I figured out that I didn't have to be smart in the technical sense because I had no mathematics.

If economics was a big field like this and lively, I could find a spot. And the big spot at LSE was empirical work. They were at the frontier of switching from what you might call David Card type economics. They were at the frontier from switching from little theoretical stuff into trying to get the data and find out what's going on. And that really appealed to me. Economics is an exploration area. Think of economics as going into a jungle and looking for new animals. The jungle was the data. It was very, very exciting. Completely different view of the world, and that changed my life.

Orley Ashenfelter:

So you were at the London School of Economics. Who did you work with?

Bob Gregory:

I didn't work with anybody. I just looked after myself. That's why I went there. I did not want to go and be bossed around by people. I just looked after myself. So, I didn't do any courses. I've done no graduate courses in anything but there were some people there who were good. I'd originally gone because I wanted to do international trade, and there's a man called Richard Lipsey, he's now in Canada, who was at the frontier. He was a very exciting person. But when I got there, he'd gone. So, then I just hung around. And then one day somebody who was formally responsible for me threw me this article on productivity and technical change, and it was the residual stuff, and it was a paper by Griliches actually on how do you change this 90 percent source of economic growth, which is a time, trend or residual. How do you turn it into something we can understand? And that's when I started to work on productivity and growth and that's how I started.

Orley Ashenfelter:

Well, that's first paper I think you published was about a comment on some productivity analysis. I didn't read that, but I did read what I assumed had to be your PhD thesis, a paper in the *American Economic Review* on the demand for imports.

Bob Gregory:

That was not my PhD thesis.

Orley Ashenfelter:

It was not?

Bob Gregory:

My PhD thesis was-

Orley Ashenfelter:

What was your PhD thesis?

Bob Gregory:

... On productivity dispersion in the gas industry in the UK. In the UK at that time, the most important person for me in a way was a guy called Frank Brechling. Do you know Frank? Frank Brechling was-

Orley Ashenfelter:

Oh sure.

Bob Gregory:

... Was a public servant and not a heavyweight economist, but a man who was interested in how the world worked. In those days the problem was why was Britain not as rich as the US? What was wrong with productivity in Britain? So, I worked on those sort of things. I worked on vintage capital models and the reason I focused on the gas industry was the gas industry had been coal-based and was being phased out. So, you could see the productivity growth as it gets phased out. And my idea was if I could look at the productivity growth when industry's got phased out, it would tell me something about productivity growth on frontiers.

Because in a way you've got the history is the history of the frontiers. So, I played around with that and it wasn't any good in my view. I got a book contract to write a textbook on productivity and growth, and couldn't do that. So, then I went to Northwestern and at Northwestern I wrote that AER article in about 10 weeks, complete change of topic, change of feel, because the focus of that paper was something which was very important in Australia and in Britain, which was that when the economy gets close to the frontier and domestic supplies get short, you spill over into imports.

Orley Ashenfelter:

Yes. I read the paper, Bob, and I was impressed because it has a modern smack, it's a time series analysis of US imports. And it takes account of things other than just the prices of imports and exports. That has the modern look of being, having that there might be some, if there's price rigidity then everything wouldn't be absorbed by price changes. You'd have to have some alternative variables that might include everything from waiting time to all other kind of aspects. So, I was impressed by that. But I kind of assumed that like Canadians, Australians had all gone into international trade, but I gather that isn't what you did.

Bob Gregory:

But it's what I was going to do. And that's what Lipsey is. Lipsey was a trade man. I was going to do that. And my whole career has been trade based in many ways, so that when you look at my labor type publications, they're all originating from trade-type stimulus problems, even though it's not obvious to the reader. So, for example, my equal pay papers came from the fact that I was interested in how the clothing industry would adjust to a tariff change, and we'd never observed tariff change in the clothing industry. So, my idea was I can find out about the effect of a tariff change if I could equate it to something else that had happened which was like a tariff change. So, if I could take this shock which we'd never observed and say, "Oh, that's like shock A," and I could find a shock A, then I could get some idea about what was going to happen to the clothing industry.

So, I was in the public service at the time and somebody said to me one day, "Did you know that the women in the clothing industry got a 30 percent real wage increase?" And I said, "No". They said, "Yeah, they got a 30 percent real wage increase". And I said, "That's interesting". So, what else is happening? Then I discover that all the women in Australia got a 30 percent real wage increase relative to men. And so off I go into that paper. So, commercial policy trade has been important all throughout my life, although you don't usually see it unless you talk to me.

Orley Ashenfelter:

I have to ask you about, you've actually mentioned it already, and I want to follow up a little. You've served on many government committees and in fact you were a member of the Reserve Bank, I guess the committee that oversees the Reserve Bank of Australia for maybe 10 years.

Bob Gregory:

Yep. I was on the board of the Reserve Bank for 10 years.

Orley Ashenfelter:

How did that come about? You're the second labor economist I've talked to who's done something like that. The other was Steve Nickell who was the British version of that, I guess. How did that come to be? How did you end up on the Board of the Reserve Bank?

Bob Gregory:

Well there are two things that are important in my life. One was the polio. The other one was I come from a small country. So if you've got a question on how the tax system works, why don't you ring me? If you have a question on what [inaudible 00:13:59] immigration, you ring me. If you have a question on something or other, you ring me. Right? That's because it's a small country. And so, Labor government, when it came into power, it'd been out of power for 23 years and it was looking to up the quality of the public service and so they drafted me into the tariff board where I was given the responsibility for introducing econometrics into the public service. And that started me as a sort of a public figure. And then I wrote a paper, which was the original paper on the Dutch disease. You've probably heard about that, where economies are subject to a shock, a trade shock. And the Dutch disease is an export shock. The China syndrome paper is the Dutch disease in reverse, the [inaudible 00:14:55] paper. And then I became famous, and so, the government, because I was an applied person, sensible, they said who can we put on the board? They had one economist, and it was me.

Orley Ashenfelter:

So, you were a big fish in a small pond.

Bob Gregory:

Exactly.

Orley Ashenfelter:

Is that the idea?

Bob Gregory:

Exactly the idea. And that suits me. I like being a generalist. So, if you asked me, are you a labor economist? I'd say no. And then you'd say, what are you? And then I'd sort of struggle a little bit and I just say, oh, an economist that's interested in the economy and data. So, for example, when airfares became cheap, economists started to run international conferences. And they'd be making up the program and they'd say, "Oh, we need someone from Britain or somebody from Europe". And then somebody would say, "Oh, someone from Australia". And that's how I sort of got on the international bandwagon. So, I wrote on science policy for *The Economist* in the US, [inaudible]. I wrote on labor economics and so on and so on. Small countries have big advantages in the old days, not so much now, but in the old days.

Orley Ashenfelter:

And I have to ask. You spent most of your academic career at the Australian National University in Canberra. How did that come about?

Bob Gregory:

At the LSE, Bill Phillips was there, of the Phillips Curve, and I was always a forward-looking type kid. My plan was to go to England, come back and become a professor at Melbourne University. When I got to England, it became clear that being at LSE wasn't good enough in the sense that America was so different and much more professional. So I, then went to America for a couple of years at Northwestern, and then I'm due to come back to Melbourne, and I decided I did not want to go back to Melbourne. I wanted to go to somewhere new. And the Australian National University in those days had a research school where you got a job doing research only. And I didn't want to do research only, but Canberra was next to government. Research only gave me a lot of time.

So, Bill Phillips wrote to me and said, would I like to come? And I said, I would come to this research job if I could teach graduate students and introduce coursework to the Ph.D. programs in Australia. Because at that time, there were no coursework Ph.D. programs. So, he said, "Oh, we are looking for someone like you." And so, I went to ANU with a specific purpose of taking a research job and turning it into a part-time teaching job where I introduced coursework to the Ph.D. programs, and that's what I did. And then I got into the government and so on. But great job, right?

Orley Ashenfelter:

Because you were right there.

Bob Gregory:

Yeah, right there.

Orley Ashenfelter:

Right there in Canberra. Yeah. I wasn't aware of this, and now that you've explained it helps. I just didn't realize that Australians, they had to go abroad in order to get graduate degrees. Was that true in every field?

Bob Gregory:

More or less. Yes, more or less. And the research school that I had this full-time research job in, that was created in 1948 to enable people do establish research degrees in this country and to bring people back to this country who otherwise would stay overseas. So, all the economics professors were either Englishmen or Australians who had degrees in England. So, it's quite different from what it is now. Now most economics professors in Australia were not born in Australia, they were not born in England. Now we have recruit all around the world, but in those days it was a very, very different world.

Orley Ashenfelter:

I do want to talk to you about some of your research. I am familiar the resource, sometimes called a resource curse, but Australia has been subject to some shocks that were, I think as you point out a small country. So, a discovery of minerals and so forth can create a very large shock to a relatively small country, and I think you were one of the first to start work on that. And I gather that was because of the shock that first came to Australia. Is that right?

Bob Gregory:

Exactly. But that wasn't the impetus. The impetus was this tariff stuff again, right? Because what a tariff does or a change in a tariff is, it changes the price level of the traded good sector, the import sector and the export sector. And so, I was looking, trying to find out how important tariff changes were likely to be, and then it occurred to me that if you have a big export shock, that's like a tariff change because if you have a big export shock, the exchange rate appreciates, import industries shrink, just as they would do if you cut their tariffs. So, I came in through this back door through the tariffs, and that was probably very close to the first paper in that area.

Orley Ashenfelter:

It's just interesting because America is big and of course trade, although it's an important part of the American economy, nothing like as important as it is in many other countries. We're still nothing like 15 percent even really of total gross national product.

Bob Gregory:

That's right.

Orley Ashenfelter:

So, it's interesting. Right now, we're oil self-sufficient. We don't even import oil and gas, we export it. I can see how you would get a completely different angle on it. Another thing I wanted to bring up though is you've written to some extent, and I know Australia is a country of immigrants, and you've written about immigration in Australia. The Canadians have obviously had many immigrants as well. Have you paid any attention to the immigration issue in Australia recently?

Bob Gregory:

Yes, a little bit. The last paper I wrote, which may have been the only one. I can't remember now, is on the fact that most of our immigrants come from Australia, which I think is a really neat idea. Because when I was young, if you were an immigrant, you sat in Italy, you said, "Oh, I'm going to immigrate to Australia." Now what you do is you come to Australia as a holiday maker or you come to Australia as a student or you come to Australia as something or other, and after you've been here for a while, you decide I'll become an immigrant. So, our immigrant integration process is so different from the United States. I mean your immigrants in the United States basically go to the United States to be immigrants. Our immigrants decide in Australia to be immigrants after they're here.

And that has important implications for choosing immigrants and immigrants choosing you because in a way you can think of our system as being try before you buy, on both sides. So, you come to Australia as a student, you here three or four years and you say, "This country suits me, I'll buy" and you become an immigrant. Or we say, you come as a student and then six, seven years later down the track, we check your credentials, and we decide to take you or not. So, in this country where 30 percent of people are immigrants, the average immigrant has an educational level above the native level, and the average immigrant is marginally paid more than the native. The contrast with say the United States is very, very dramatic.

Orley Ashenfelter:

There's a mixture in the US, really.

Bob Gregory:

The second thing I wanted to say is that, and this is a really amazing number. Every second person you meet in this country, every second person is either an immigrant or has one parent who's an immigrant. That's an extraordinary number. So, we are a very different sort of place. And immigrants, as I said, because they're so important, they make up basically one and a half percent of the population growth every year. We are not a country that's worried about population shrinking or birth rates shrinking or something because immigrants are such an important labor source for us.

Orley Ashenfelter:

What's interesting about that is the US has a similar arrangement except it's a two tiered deal. The Asian immigrants, many of them are just as you described, often very highly educated and often make more than the locals. But we have another, a huge source of immigration as you know that comes from south of the border and that creates an entirely different problem, and it certainly doesn't fit the story that you were just describing. I know also in recent years, you've actually spent some time in China. Have you been working on research and trying to do something of an analysis there?

Bob Gregory:

Yeah. I spend a lot of time in China, but my wife is a China expert. She's a very famous labor economist in China. I realize the world's going to know this. My wife is a very strong person, and I decided having two people working on China is not a good idea. So, I know a lot about China, but I don't do the research myself, apart from one paper. And the paper we did was we addressed the following question: if you look at Australia immigration, you can't have all that immigrant numbers without immigrants marrying locals. I mean, they're just to be grew. So then we looked at the question, what happens to an immigrant if they marry a local? Is there an advantage or a sorting thing on that? And it turns out if an immigrant marries a local, then the labor market return is very high. It's like a degree. If you just look at the immigrant and say, "Did you marry a local?" Compare that immigrant with somebody that looks the

same way and the one that marries a local gets a lot of extra money. And I wanted to leave it at that because I thought that was a really important sociological phenomenon.

But the economics profession wanted me to, or us, to clean it up a bit, take into account selection. I'm opposed to a lot of this selection literature because I think the actual selection is the key issue rather than standardizing for it. But anyway, so we published that and that started a new literature, which is basically the role of intermarriage. So, that's one thing we did on China. And then my wife specializes on the rural migration scene in China, which has been arguably the first or the second most important source of Chinese growth, shifting all farmers where their marginal product is close to zero into construction. I know a bit about China, but I don't do research on it.

Orley Ashenfelter:

So, you've spent some time there and you have someone that you go with who obviously is very familiar. What's your current view about the Chinese economy?

Bob Gregory:

There are two views. One is the long term, and if you take GDP as a measure of progress, China will be number one in the world this year, next year, the year after, just depending on how you do the calculations, and that's not going to stop. So, I'm very, very upmarket on China. Having said that, you've got to realize that once you're divide it by the number of people in China, income levels are still very low on average. That's one thing. The second thing is that in the short-term China has done incredibly well over the last two or three decades at managing any sort of crisis, and they're sort of going through a crisis now with the construction industry. That is a big, big shock.

And the question is what to do about that? The current view of the Chinese government, as evidenced by their behavior, is they know this housing bubble's been building up and we've just got to let it go. And that's hurting the economy a lot. How much that spreads into the rest of the economy is not clear. So, you can be a little bit pessimistic in the short term, a year or two or three, but not in the long term in my view. The other thing I should say, by the way, is that China's growth has dropped to five point one or five point two. So, this is still a pretty marvelous growth rate, and it's never going to go back to the seven or eights. So, I'm optimistic on China.

Orley Ashenfelter:

Yeah, yeah. I mean, it's clear they've had a phenomenal growth actually. You may remember when you were a student, or at least when I was a student, we all studied the Japanese economic miracle. And the Japanese then reached the edge of their production possibility frontier, and then they grew just like everybody else. And theoretically in principle, China could go that far although, as you point out, a very long way to go in income per capita. Coming to the end of our podcast, there's one thing last thing I'd like to ask you about. You've actually lived through Australia over quite a long period where that economy has developed. There's also been all kinds of political developments, and of course Americans recognize that virtually all film stars come from Australia, and for some reason they learn how to speak with an American accent. I'm not sure how they do that. Although I have occasionally spoken with a Australian accent, which is the way I believe you say Australia. But what I wanted to ask was this. So, what would you say is the biggest change in Australia over the period you've been involved with the economy there?

Bob Gregory:

In my life there's two big changes, and you can see it in my family. The first big change is, and I was typical, I got married at 23. The minute you got married, the wife stopped working. My wife never worked again in the labor market for the next 20 years. So, the big change is the role of women. I mean, it's just extraordinary. Male, full-time employment, for example, is a fraction of proportion of males dropped 20 percent between 1970 and '80, and it's still there 20 percent down. So the change in women is the biggest thing. And if you think of economics as a labor economist, it's amazing how the women have got less weight in terms of research. I mean, Claudia Goldin got the Nobel Prize, which is nice. But that's the first big thing. The second big thing is the immigration. I grew up, and not only was Australia white as it were, but it was English, Scottish, or Irish. It was a very narrow focus of white. That's not true anymore. So, in my family, virtually all my brothers and sisters and our children are married to people who either were not born here or whose parents were not born here. So, the immigration's the other big thing. They're the two big things that have happened.

Orley Ashenfelter:

That's fascinating. Of course, the change in status of women, of course that's true in the US as well. I often claim that's the biggest social change that we've had. Well, our guest today has been [Bob Gregory](#), Emeritus Professor of Economics at the [Australian National 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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