

TRANSCRIPT

The Work Goes On

Guest Host: Henry Farber

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Henry Farber:

There's renewed interest in labor unions as agents to improve the wages and working conditions of workers in the face of employer market power. Given my longstanding interest in labor unions, I find this to be a very welcome development.

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 emeritus 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 [Henry Farber](#), who is Hughes-Rogers Professor of Economics emeritus at [Princeton University](#). He is renowned for his work in labor economics and especially for his research on the economics of labor unions and collective bargaining and worker unemployment and displacement among a broad range of other topics. Hank, welcome to [The Work Goes On](#).

Henry Farber:

Thank you, Orley. I'm delighted to be here.

Orley Ashenfelter:

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

Henry Farber:

I grew up not too far from Princeton, really in what I'll call a canonical factory town in New Jersey called Linden, which had a Exxon oil refinery. Well, it wasn't Exxon then. It was Esso. It had a General Motors assembly plant, an American Cyanamid chemical plant among others.

Orley Ashenfelter:

And I know you went to school there.

Henry Farber:

Yes, I went to the public schools in Linden. I'm a proud 1968 graduate of Linden High School.

Orley Ashenfelter:

And still there probably...

Henry Farber:

It is. I was in the town a few months ago and it doesn't have the same level of industry it used to have, but it looks similar.

Orley Ashenfelter:

Now, I know. I always wondered, how did you end up going to RPI, Rensselaer Polytechnic Institute, from Linden, New Jersey? That doesn't sound like an obvious choice.

Henry Farber:

Well, I didn't really understand my high school until I read Bowles and Gintis' [*Schooling in Capitalist America*](#). This was a factory town, and they were training us to be to our proper place in the hierarchy, really. I was a good student, not an outstanding student because I didn't want to compete with my perfect older sister, but I was really boy scientist. I was always down the basement doing science experiments, mostly with electricity, but I did some chemical stuff too. I always thought I would be an engineer and I wanted to go to engineering school. No one was ambitious enough for me to say, "why don't you apply to Caltech or MIT?" And I had... My father's cousin had gone to RPI and some other people I knew, and so I applied there, and I said, okay, here I am.

Orley Ashenfelter:

I know you always dabbled in science. I remember staying with you in your house near Boston once when turning on the heat was a major engineering exploit.

Henry Farber:

Well, it wasn't the heat as much as the hot water.

Orley Ashenfelter:

Well, okay. The hot water.

Henry Farber:

We only had hot water on demand.

Orley Ashenfelter:

I see. Well, I have to admit, I found that your engineering skills were definitely, and I know you liked to repair cars. How many cars do you have now?

Henry Farber:

Oh, now we're just the standard couple. We have two cars. I'm past my car phase, but at one point I had seven or eight cars.

Orley Ashenfelter:

I remember you took me once to the car show in New York because you were president of the BMW Car Club of New Jersey, which I always thought was a really impressive thing.

Henry Farber:

Well, it wasn't reflected in my paycheck.

Orley Ashenfelter:

[Chuckle]

Henry Farber:

It was a lot of fun and I made lifelong friends through my association with the car club.

Orley Ashenfelter:

At RPI, what did you major in?

Henry Farber:

Well, I wound up majoring in economics. It wasn't that I found engineering difficult. It was interesting, but it was the late 1960s and I felt like I wanted to do something that was more directly related to people, which was probably a misunderstanding on my part about what engineering does. But at the same time, the social sciences really attracted me, and I wound up in economics because it was the social science that seemed more tailor-made for my mathematical talents.

Orley Ashenfelter:

It's an interesting comment that many people that have been on the podcast actually started off as people who majored in mathematics and figured out that they weren't actually going to be professional mathematicians, quite. Maybe that's true for a lot of economists. Now, then the next thing after RPI, you went to the Industrial Relations School at Cornell.

Henry Farber:

Well, you're skipping an important step there, Orley.

Orley Ashenfelter:

What did I skip?

Henry Farber:

When I graduated college, I didn't really have a clear idea of what I wanted to do, but even at that point in my life, I had a very strong interest in labor unions. In fact, in high school for a history project, I wrote a paper about Jimmy Hoffa and the Teamsters and David Beck and the Teamsters, and I was always interested in unions. But additionally, when I graduated college, I took a job in a redwood warehouse in New Brunswick, New Jersey.

Orley Ashenfelter:

I didn't know that. A redwood warehouse?

Henry Farber:

Yes, and I had to become a member of the Teamsters Union, Local 522. And don't ask me where Jimmy Hoffa is buried.

Orley Ashenfelter:

I was going to say you probably know better than anybody.

Henry Farber:

Anyway, we had a union. We had an interesting time. We had one wildcat strike when the management, what they call, pulled the timecard of one of my coworkers because he was chronically late to work. So, we went on strike and prior to that I'd had some experience in high school. My father ran a small business and also had teamsters, same local, working for him, and they went on strike. So, I'd been a strike breaker too. So, I'd been on both sides of this environment and when I was working in the redwood warehouse, I said, "boy, I'm waking up at five o'clock every morning to get there. There must be an easier way to earn a living." So, I decided I'm interested in unions, let me study unions. And the only place I'd ever heard of where you could study unions was the ILR School at Cornell. So, I applied there.

Orley Ashenfelter:

And you got in and I guess I was not aware... I knew you had been a member of the teamsters, but I did not realize that that was a part of this redwood enterprise in New Brunswick, which I'm sure is long gone. So, you got to the ILR School really. But you were very interested in unions. Well, you had been a union member, interested in unions from the start. So, the ILR school must've been almost perfect for you.

Henry Farber:

It was a terrific, terrific experience. It really was critical for me, not only because I was very interested in the material, but I was able to work for two professors in the ILR School, at least one of which you know, Dave Lipsky, and another one named John Drotning, and I became their research assistant. And it was really the first time I seriously looked at the world through data and I said, "wow, this is terrific." I felt like I'd found myself in important ways and really got me going.

Orley Ashenfelter:

The School of Industrial Labor Relations at Cornell, and now I think they've managed to pull that into a sort of school of economics... It is a very high-quality faculty. I think maybe never stopped being a high quality faculty. Did you have interactions with some of the older people too?

Henry Farber:

I did. A guy named Morris Neufeld taught me a couple of courses. He was an industrial relations scholar, an industrial relations theorist, I would call him. Don Cullen, Walter Galenson, Vladimir Stoikov. And I took courses in the economics department as well while I was there because I realized my future was going to be in economics, so I took courses with people like Bob Frank.

Orley Ashenfelter:

Oh, interesting. So, you really did get... In a way, you're a kind of an example of how the ILR School should be a part of a school of economic sciences or something like that.

Henry Farber:

Well, I think there's, as our colleague Ceci Rouse says, it's a big elephant and we can pat it in different ways and economics is one of them certainly, and it certainly suited me, but I think the people who come at it from other disciplines as well have something to offer.

Orley Ashenfelter:

And I know you of course went to Princeton, one of our outstanding graduate students who ended up at MIT. MIT now must've been a little different from any place else you'd ever been.

Henry Farber:

I think it still is. It's an impressive place. It had an impressive economics department. I was given really free rein to build labor economics at MIT, and I took full advantage of that. So, I had a roster of students that was quite remarkable, and it was really a wonderful place. MIT economics is unusual partly because MIT is not really known as a hotbed of social science. It's really known as an engineering school. So, engineering and science are really primary. And the engineers, as Paul Samuelson told us at his retirement party, he said, the engineers don't really know what we do over in economics. They hear we're very good, but a few of our guys could clean it up in a month.

Orley Ashenfelter:

I've heard you say that before actually. I like it. It's probably the right attitude that you should remember when you think about dealing with other scientists, if I may call them that, assuming we are scientists. Let's talk a little bit about the work that you did. I hadn't quite appreciated that you were so connected to industrial relations from the very beginning. Your work on unions has spanned a very broad variety of topics all the way from what kind of objectives they have to union organization to work I'm very fond of on arbitration, the use of third parties to help resolve disputes, which is something we probably the world could use a lot more of today. Of all that work you did, and I know you've done a lot on unions, what stands out as what you think is most important?

Henry Farber:

It's hard to say. It's like which of your children do you like best? It's not something that's easy to say. I think an early insight that I had that at least was that there's really two-sided selection in who gets into a union. To be a union worker in the United States the worker needs to want to be a union worker, but the employer needs to want to hire that worker as well. And early on, people were modeling who's in a union as simply a worker decision. A worker wants to be in a union and he's in a union. I got this idea because I grew up in, as I told you, in Linden, New Jersey, and the best industrial job around was with General Motors. They had an assembly plant. I knew guys who were working in other jobs waiting around to get the call from GM and go to work there. I thought of them as in the queue for a union job. They wanted this union job and maybe they were working in a non-union job at the time, but the two-sided selection meant they couldn't just walk in and get one just because they wanted one. So, I had a paper with John Abowd on this early on that gets cited reasonably and a paper of my own also on this topic.

Orley Ashenfelter:

It's interesting because people automatically, once they hear about this kind of work, start to ask the question about a paper I just read of yours by the way. I hadn't read it before because it has one of my favorite titles, "[Round Up the Usual Suspects](#)" from the old Casablanca movie, and in this case it's round

up the usual suspects to explain union density or the decline in union density. Is that still your take on why unions have become such a small fraction of the U.S. workforce?

Henry Farber:

Well, to be honest, you've read that paper more recently than I have, but in broad terms, yes. I think there were just broad economic forces that in conjunction with the peculiarities of work in America led to unions becoming marginalized and employers became less subtle at fighting unions. They were never very subtle. There's lots of stories in union history in the 19th century of employers hiring goons to beat up union organizers and union sympathizers and so on. But I do believe that globalization was just a big factor. The idea that a union in the old terms prospered by taking wages out of competition and attaching wages to jobs and not to workers, but obviously when the workers you're competing with are overseas or in Asia or somewhere else or Mexico, you can't promise the employer that you'll raise the wage of all their competitors' workers. So, it makes it much harder for unions to raise wages without risking employment.

Orley Ashenfelter:

Interesting. The thing that is unusual about the U.S. in part is that like our neighbors, the Canadians have a much higher unionization rate than we do. Canada isn't a lot different from the US in many ways. You think that's mainly because of the employer side?

Henry Farber:

Yeah, I think in part. I haven't thought hard about this lately, but Canada has a more northern European ethos in how they are run in the sense that companies have many stakeholders and they're competitive, but they provide for their workers and so on. And it would be unacceptable, I think, normally for a Canadian company to be as overtly anti-union as U.S. companies can be.

Orley Ashenfelter:

I guess it's just a part of the Canadians are nice people. That seems to be...

Henry Farber:

I think so.

Orley Ashenfelter:

I do too. Now you also worked in an area that I worked in as well, but I'm always very fond of your work in this area and that's arbitration using a third party to resolve a dispute. How did you get interested in that topic?

Henry Farber:

Well, it was really very interesting. It was in probably my first year at MIT, my colleague Harry Katz, who's one of my good friends and was dean of the ILR School at Cornell at one point. We were attending workshops where people were presenting models of does arbitration raise wages by regressing the wage or the wage change on a bunch of stuff, and a dummy for whether arbitration was used in that case.

Orley Ashenfelter:

I wrote one of those papers.

Henry Farber:

I remember. I was too polite to say that.

Orley Ashenfelter:

Well, we have to let it fall out. Facts are facts.

Henry Farber:

But the point is our insight was that arbitration defines the environment in which people negotiate. So, when people negotiate, what's always in their mind is what will happen if we don't reach an agreement. And that's going to affect even the so-called voluntary agreements. So, we said, let's try to model that process by which the parties – the firm and the union – have expectations about what would happen if they disagree, which is relatively straightforward in arbitration because an arbitrator makes a decision. And we built a model of that, and we were able to say what would be the optimal positions to take in bargaining in a world like that. And it leads to a very different understanding than simply running the regression I described before. And I realized I was not strategically savvy enough to understand that a much bigger forum for that model is in law, in civil law, where if parties disagree, a judge or jury decides, and it's really in terms of modeling, it's exactly the same. So, there's [a wonderful paper in the Yale Law Review](#) by Mnookin and Kornhauser which talks about exactly the model we had in the context of divorce settlements and agreements.

Orley Ashenfelter:

There was actually a paper... You remember the name Carl Stevens?

Henry Farber:

Sure.

Orley Ashenfelter:

He wrote a paper about arbitration, I think in the *Journal Industrial Relations*, which is a kind of a verbal version of the paper that you and Harry Katz did, in some way.

Henry Farber:

If I remember Carl's paper, it was about final... He actually kind of came up with final offer arbitration.

Orley Ashenfelter:

Yes. But he described... His analysis was pretty much along the way you described yours in the sense that he was thinking of it as a backstop to what would otherwise happen in negotiations. But it is quite interesting thing, and I'm not sure people are really as aware of that they should be, that your work on arbitration is very, very similar to work in any kind of negotiations anywhere. Now the next area I know you worked in a lot over a long period of time is matches between employers and employees, and some of this is a result really of your original interest in layoffs. How did that get started?

Henry Farber:

I think I started that when I moved to Princeton, actually, partly because the Industrial Relations Section at Princeton, which was a great facilitator of my work at all stages, made access to the data extremely easy, and I was always interested in unemployment. And I found a survey which I'd heard of before called the Displaced Worker Survey, which I think the first time I saw it, Gibbons and Katz had written a paper called "[Layoffs and Lemons](#)" which used those data. And I said, well, there's a lot more to be learned from those data other than adverse selection. At first, I was trying to measure what are the consequences of losing a job? What happens to people after they lose a job? How easy is it for them to find another job? What kind of wage loss do they suffer, or do they not suffer a wage loss? And there's certainly a lot of variation in that. So, it was really just a general interest in the area of, I want to say, pain to workers that....

Orley Ashenfelter:

Caused, yeah. Do you think there's a general conclusion about just how much damage is done to a worker when they're involuntarily laid off?

Henry Farber:

Well, it turns out there's much better sources of data to look at that now, which is these longitudinal employer-employee data sets where you can watch workers for long periods of time, both before and after the job loss. There's [a canonical paper by Jacobson, LaLonde, and Sullivan](#) which was among the first to do that. And I think rather than the conclusions from my work, which were more descriptive, the conclusions from that other work is that the consequences of job loss I think are fairly substantial and importantly, fairly long lasting. There's literature starting with David Elwood, but going on through Lisa Kahn on what are the consequences for young workers of losing jobs, of what are the consequences for young workers of having a spotty labor market history? And there there's really quite substantial and long-lived negative consequences.

Orley Ashenfelter:

Over a long period of time. I realize I'm not sure that that's as widely understood. For example, when you think about closing a factory or something else, there's often little consideration taken of the fact that there's going to be some permanent injury, more or less permanent injury to some of the workers, and it will have spillover effects in various in all kinds of towns that go on.

Henry Farber:

If I can interrupt, there's an interesting story that goes, I remember when Gibbons and Katz came to me. Larry was at Harvard, and Bob and I were at MIT, and they explained to me their idea for "Layoffs and Lemons." It ran against everything I understood as a labor economist, which was that if a plant closes that's a big negative shock to the local labor market and people have a harder time finding jobs and do worse. What they were arguing was that people are indiscriminately, if you will, laid off in a plant closing and they're just sort of average workers and they'll be fine, but workers who are laid off not as part of a plant closing, are negatively selected and will do worse. So, I was quite surprised when they found results consistent with their hypothesis.

Orley Ashenfelter:

Yeah, although it's a selection issue, of course, is what makes that separate. One thing I do want to bring up, and I'm not sure... You are quite famous as a teacher, and I mean this unlikely and unusual in some ways at all levels. So, you've taught the big principles of economics classes at Princeton, which I'm quite

sure nobody else wanted to do if they could help it, and you've taught an undergraduate quantitative econometrics course for many, many years, and of course you have this long track record of very fine Ph.D. students both at Princeton and at MIT. So, it's pretty clear that it isn't just the institution that you have some connection to it too. You've been pretty interested in teaching all along. Why is that?

Henry Farber:

Well, for example, take the Principles of Economics class. I thought that was really an important responsibility because I think economics is really important to being a good citizen. Put aside whether you want to train people to be an economist. To be a good citizen you should understand something about economics, and for many of the students in the big principles class, it might be the only economics they're going to see. So, I took that very seriously and I really enjoyed the give and take and so on. The econometrics class that I taught, that was really a gift from Steve Goldfeld, who was chair of the economics department when I arrived. He said we could use a course like this, and I said, gee, that would be great. It feeds right into my interests and abilities and I really... To get ratings that said something like, this is the most valuable course I took at Princeton. It was, now believe me, not everybody said that that was really...

Orley Ashenfelter:

But I have heard that from some people, especially the undergraduates, who took your course and then went on to get PhDs elsewhere. I actually heard them say that precise thing.

Henry Farber:

So, that's really nice. With regard to graduate students, I was never in the business of giving a graduate student a topic. I wasn't carving off parts of my research agenda. I was saying, "I'm willing to talk to you about anything. Let's just talk and let's see if we can hone down a topic." And I have to say, Orley, you were something of an inspiration for that because one of my formative experiences was having a conversation with you and Al Rees where you guys said, "well, that topic you want to work on is no good."

Orley Ashenfelter:

I understand I might've said that, but Al Rees is such a sweetheart. I can hardly believe that he would...

Henry Farber:

No, he said, "you might want to think about working on something else."

Orley Ashenfelter:

Okay, that's more like him.

Henry Farber:

And so when I was advising my own students, I would say they'd come in and say, "I don't know what I'm interested in." I would say, "well, go read some stuff and then come back when you find something you're interested in because you're going to spend an awful lot of your life working on this and let's make it something you really like."

Orley Ashenfelter:

And sometimes you actually did end up writing papers with your students, but not always.

Henry Farber:

Not very often. Not as often as you, for example.

Orley Ashenfelter:

Yeah, I often did actually. I didn't come from a mathematics background, so I was very happy to have co-authors who were very good at mathematics, and some of them taught me a lot of what I finally ended up learning.

Henry Farber:

Yeah. Well, my most valuable co-authorship, I think, and my other co-authors hopefully won't get me for this, was with Bob Gibbons. We wrote a paper together called "[Learning and Wage Dynamics](#)," which I really like, whatever the world thinks of it.

Orley Ashenfelter:

It's a little bit like movies, right? You spend a lot of money on the movie, and it doesn't do very well, and sometimes you don't spend any money, it does very well. A little bit like papers, very hard to say what papers others will think are important, and it's, I think, difficult for that reason to have a research plan that is foolproof from anybody's point of view.

Well, we're coming to the end of our podcast, and I do want to ask you one more question, which is very broad speculative. You've watched labor economics evolve in a somewhat unusual way because you really started off from the industrial relations side of the labor field going to the Industrial Relations School, even, at Cornell, and then you developed as everything did become more quantitative, and the work you did evolved more quantitatively in the industrial relations area, but then also into other aspects of economics. So, you've actually watched this field evolve over this whole period, and I'm curious, it's a question you can ask people that have been around for a long time, what do you think of the current, and I think you should be as blunt as you can. What do you think of the current status of the way labor economists are doing their research?

Henry Farber:

Well, I think the broadening out of the kind of data we are looking at, like this administrative data, machine learning and things like that can only be useful. What I worry a bit more about is the nature of the questions asked. Unlike some others, I'm not the identification police. And we have to worry that when someone loses their keys, they look under the lamplight. People find an instrument, and with a little bit less consideration than maybe they should give, they estimate a model and estimate a parameter that may not be the parameter of interest.

I think labor economics is in good shape. It's quite broad. It's asking a broad range of questions. But some of it could use a little bit more economics, a little bit more economic modeling to help understand what's going on. Finally and worth my mentioning especially, is that there's renewed interest in labor unions as agents to improve the wages and working conditions of workers in the face of employer market power. Given my longstanding interest in labor unions, I find this to be a very welcome development.

Orley Ashenfelter:

Our guest today has been [Hank Farber](#), Hughes-Rogers Professor of Economics emeritus at [Princeton 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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