What can a young labour economist (or any economist) learn from Bob Gregory?*

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“Knowing what to measure and how to measure it makes a complicated world much less so. If you learn how to look at data in the right way, you can explain riddles that otherwise might have seemed impossible.” (Steven Levitt and Steven Dubner, 2005, *Freakonomics*, William Morrow, page 14)

I. Introduction

For over thirty years now, Bob Gregory has been the dominant influence on research on labour markets in Australia. At regular intervals there has been another Gregory paper to provide a new window onto the Australian labour market, and usually one that has pointed the way for other researchers to then take up the same topic. Bob’s work has been all-encompassing in its span. There are few aspects of the labour market that have escaped his attention. His work has generated novel ‘stylized facts’, original empirical methods to better understand the causes of those facts, and theories to explain the facts.

When someone has been as successful in their area of enterprise as Bob Gregory has been, the question naturally arises – What are they doing right? This is the question I want to ask in this article. In answering the question my aim is to provide a (partial) review of Bob Gregory’s work and his contributions that will hopefully illuminate some useful lessons for a young labour economist thinking about a career in research. Of course, no one would be surprised with my making the caveat that there is much about Bob that cannot be imitated. A large part of his contribution has been because he is just much better at applying the lessons than anyone else. Nevertheless, I still think Bob’s research can provide practical lessons of great value. In what follows I have organised my discussion of lessons around three main themes that I feel characterise Bob Gregory’s approach to research: asking the right questions, using the right empirical method, and presentation.

II. Asking the right questions (Knowing which research topic or data to look at)

The fundamental explanation for the influence of Bob Gregory’s research is that it has asked questions that have had interesting and original answers, and answers that have been seen as important by academics and public policy makers alike. Simply put, he has asked the right questions. Where do these questions come from?

Bob’s research in labour economics has been exclusively empirical, so the starting point has always been having an empirical research question in mind. My impression is that sometimes his research has begun from finding a new data set and the idea that we might learn about a new dimension of the labour market from it, but more often he
has had a general area of research in mind and has been looking for the best data to answer his question.

There are a variety of factors that I think explain Bob’s ability to choose research topics that are thought important and interesting. First, he is always on the look-out for new data. In his early research on unemployment he was the first to take advantage of data on gross flows between labour force states and to utilise job tenure data (for example, Gregory, 1982a). More recent examples are his work on neighbourhoods (Gregory, 1996a; and Gregory and Hunter, 1995) that used Census Collector District data available for the Census years from 1976 to 1991 that had not previously been used by economists; and his extensive work using administrative data on payment recipients from the Commonwealth Department of Family and Community Services that became available in the late 1990s (Gregory and Klug, 2002; and Gregory et al., 2004) where Bob and colleagues have been able to provide new insights into patterns of payment receipt by sole parents and disabled persons.

Second, Bob has been very aware of international developments in labour economics, and the possibility that ‘hot’ research topics in North America and Europe might also be of interest in Australia. Research that follows international developments may begin as replication, but done well it can go far beyond this, for example throwing new light on causes of labour market outcomes. For example, Bob’s research on earnings inequality in Australia that was the first to document large increases in inequality since the mid-1970s followed an upsurge of interest in this topic in the United States, and an invitation for him to contribute to an NBER volume on this topic (Gregory, 1993; Gregory and Vella, 1995). While this research was initially similar to studies being undertaken elsewhere, ultimately it also provided a better understanding of issues such as the effect of the Australian industrial relations system on the distribution of earnings and employment growth for low-wage workers, and potential interactions between regulation of wage-setting and the welfare system, both of which remain of considerable importance today (for example, Gregory, 1996b).

Third, it seems to me that Bob has always been motivated by the idea that economics is (or should be) about human society and what happens to people. Therefore his research has been about people (and hence is of interest to people!) and about how policy affects people (and hence has been of interest to policy-makers!). His consistent pattern of research on topics such as unemployment (for example, Gregory and Duncan, 1979; Gregory, 1982a, 1982b), well-being of indigenous Australians and Native Americans (for example, Gregory and Daly, 1997), labour market outcomes for low-wage workers (for example, Gregory, 1996b) exemplifies this point.

Fourth, I think Bob has maintained a watching brief on the Australian labour market throughout his career. He (read Eva Klug, his dedicated and highly efficient research assistant of 20 years) is always updating his overheads on variables such as employment, unemployment, wages, productivity from ABS data. And for this reason Bob is always the first to notice interesting new trends or patterns, as well as remembering better than anyone else what happened in the past.

Part of the way that Bob has kept a watching brief must also have been through the major public service roles he has taken on – in the 1970s as a First Assistant Commissioner at the Industries Assistance Commission, and between 1985 and 1995
on the Board of the Reserve Bank of Australia. Having these jobs demonstrates Bob’s intrinsic interest in policy and empirical analysis, but no doubt has also been an important source of his enduring interest in analysis of the Australian labour market and a rich source of ideas.

Finally, Bob is notable for the amount of time he spends talking to people about research (usually at Caterina’s behind the Law School at ANU) – colleagues in Economics or other Departments at RSSS, students, visitors, and public servants. Apart from meaning that he can sneak in coffee, chocolate and hot chips, talking to people has provided Bob with the opportunity to be continually testing and improving his ideas for research – by finding out what topics other people think are important, and by getting their opinions on work he is thinking of (or is) undertaking. My guess is that putting his ideas through this process of selection and refinement is very important in explaining why so many of the papers that he has worked on have made such significant contributions.

III. Using the right empirical method (Knowing how to look at the data)

Having decided on the research question and data, the next step has to be to think about how to analyse the data. In this dimension of research, I think Bob’s work has several lessons.

One lesson is that interesting and important questions can come from seeing patterns in data. A large fraction of Bob’s research has started from this point – through careful descriptive analysis being able to identify striking patterns in data. The breakdown in the Phillips curve in Australia (Gregory, 1982a, Figure 1); the differing paths of male/female wage differentials in Australia, the United Kingdom and United States since the 1960s (for example, Gregory et al., 1989, Figure 10-1); the emerging disparity in employment rates between low and high socioeconomic status neighbourhoods in Australia (Gregory and Hunter, 1995, Figures 3–4); the divergence in real wages and employment in Australia and the United States (Gregory, 1993, Figure 3); and the ‘disappearing middle’ of the distribution of earnings in Australia (Gregory, 1993, Table 1) all nicely illustrate this point. Starting with a striking data fact gives Bob’s research a sense of the question to be explained that is at once straightforward to grasp and well-defined. It is easy to appreciate that what he is doing is interesting and potentially important – And so he has the reader turning the page, or the listener straining to hear what comes next.

Another important aspect of dealing with data is knowing what the variables in the data set mean and what they don’t mean. Obviously this is important for correctly interpreting findings from the data, but it can also provide opportunities for research. In an early paper (Gregory and Sheehan, 1975) Bob interrogates official measures of the rate of unemployment showing how knowing the details of their construction can assist understanding why those measures of unemployment vary over the business cycle, and why an appropriate measure of under-utilisation of labour in an economy may consist of both the official rate of unemployment and an estimate of the rate of ‘hidden’ unemployment.

A second lesson is that it is often possible to use very simple ways of doing empirical analysis to answer your research questions. For me the classic example is Bob’s use
of cross-country comparisons in his research on the effects of Equal Pay cases on male/female wage differentials (for example, Gregory et al., 1986, 1989; Gregory and Daly, 1990). This research can be seen in many ways as a forerunner of the ‘natural experiment’ studies that have become so common since the 1990s. It uses the difference between male/female wage differentials in Australia (where Equal Pay cases occurred in 1969 and 1972) and the United Kingdom (Equal Pay Act in 1970) and United States (no changes to equal pay regulation from the 1970s onwards) to identify the influence of differences in human capital and institutions on cross-country differences in the gender pay ratio, and to estimate the effect of Equal Pay cases on changes in the gender pay ratio and why the effect differed between countries. The findings – that institutions can matter in wage-setting – seem to me extremely robust, yet most of the analysis in these papers is done by figures and descriptive analysis, and there is nothing more complicated than OLS regression with some Oaxaca-Blinder type decomposition. The power of the analysis instead derives from having chosen the cross-country comparison, and chosen countries where developments in wage-setting regulations were so ideally suited to identifying the potential effects of institutions on wage outcomes.

The third lesson is in the way that Bob’s research is always pursuing an explanation for the data facts he finds, and how new theory or knowledge can come from this pursuit. Rejecting an initial hypothesis for a data fact is not the end of the story, but rather is seen as allowing the opportunity to explore alternative explanations. One example is in Bob’s work on unemployment and inflation in Australia (Gregory, 1982a, 1982b, 1986). In this work he begins from the finding that the traditional Phillips curve does not appear to exist in Australia in the 1970s and 1980s; that is, “…nominal wage increases cannot be explained by the rate of unemployment alone” (Gregory, 1982b). In seeking to explain this finding Bob asks why unemployment might not be an appropriate proxy for demand-side pressures on wage-setting. The explanation he suggests is that long-term unemployed who account for a large fraction of total unemployment exert little influence on wages since firms do not consider long-term unemployed part of their potential workforce. Instead, wage-setting is primarily determined by bargaining between firms and insiders, who are their long-term workforce. Bob tests the idea that labour utilisation within the firm is what matters for wage determination by examining the relation between the rate of wage inflation and overtime hours worked, and finds support for his hypothesis. The explanation for the breakdown of the Phillips curve in Australia that Bob proposed has been seen as the origins of the insider-outsider theory of wage-setting that subsequently has been highly influential in labour economics.

Another example of this process of trying to explain new data facts would be Bob’s work on the employment effects of the Equal Pay cases in Australia (Gregory and Duncan, 1981). The initial empirical finding is that the relative employment of males and females did not change in the way that would be expected after the Equal Pay cases. Standard demand theory suggests that the increase in female/male relative wages should have caused a decline in female employment relative to males, but the empirical research found little relation between relative wages and employment. This finding then became the basis for supporting a theory of segmented labour markets – where the occupational structure of employment means that there is a relatively low degree of substitutability between males and females so that the response of labour demand for females to the Equal Pay case is relatively small.
The fourth important lesson is with reference to the theoretical perspective that Bob has brought to his research. I would describe this perspective as always having textbook neoclassical theory at the back of his mind, but also consistently taking seriously the idea that institutions and market frictions are essential for understanding labour market outcomes. This seems to me a commonsense approach, that is ultimately likely to result in the most satisfactory and robust type of labour market theory.

In some of Bob’s research – such as his work on the effects of labour supply on unemployment in Australia in the 1970s (for example, Gregory and Duncan, 1979) - the value of bringing a demand/supply perspective to the research question (and in fact considering the potential effect of both sides of the labour market on outcomes) is evident. In other work, such as on the effects of equal pay regulation on gender pay ratios, the neoclassical framework provides a very useful benchmark to compare against actual outcomes (for example, Gregory and Daly, 1990). And in his work on insider-outsider effects he has shown how, rather than rejecting a role for demand forces in wage-setting, redefining the nature of the demand effect can preserve that paradigm (Gregory, 1986).

However, Bob’s work also has the strength of never trying to shoehorn the labour market into an ill-fitting model. Where for example the forces of demand and supply, or human capital theory, did not seem able to exclusively account for labour market outcomes, he has been happy to consider that institutions may have an important role such as in the effect of equal pay regulation on gender pay ratios; or that frictions such as labour market segmentation may prevent adjustment in the way that a textbook model might suggest (for example, Gregory and Daly, 1990; Gregory, 1991).

IV. Presentation matters

The final lesson from Bob Gregory’s work is that if you want your research to have an impact then it is not just what you say, but how you say it, that matters. Two aspects of the way that Bob presents his research stand out.

First, most times Bob will motivate a talk or paper with a diagram that expresses in a simple and dramatic way his research problem. Underlying the diagram of course must be some interesting data. But having the data is not the same thing as being able to present it in a way to give an audience a sense of its importance. And this is where Bob excels. As an example, when you see the simultaneous and quite large divergence in the relative employment rates and relative wage rates between Australia and the United States in the mid-1970s (Gregory, 1993, Figure 3) it is hard not to think that the rapid growth in real wages in Australia at that time is worth examining as a source of the origins of the decline in male employment. But getting all this from one diagram relies on thinking to present the data in the form of ratios between Australia and the United States, and knowing to present both real wages and employment in the same graph. Bob makes this look easy, but the reality is that it is an art that requires considerable thought and skill. The returns from doing this well, however, are immense. In a single stroke you capture your audience’s attention by giving them a solid grasp of what you are trying to achieve with your research.
Second, Bob generally has a ‘story’ for describing his research. In his writing, and in seminars, what you get is a tale of his research as a progression from an initial question or fact of interest to a final conclusion, with all the steps he went through along the way and approaches he tried to get to that conclusion. His story unfolds in a way that is both logical, and captivating for the feeling of being alongside him as he solves the problem. Bob is also most effective in the way he uses vivid images to make his findings clear. One of my favourite examples is his description of a social researcher walking across all the neighbourhoods in any capital city in Australia in the 1970s and then repeating the walk in the 1990s. In the 1970s the researcher could have walked through every neighbourhood in the city and found the probability of any male they met being in employment to be virtually identical; yet by the 1990s the researcher would have found huge differences between neighbourhoods (Gregory, 1996, p.7).

V. The final lesson

The final lesson that I think an economist can learn from Bob Gregory comes from a rather different perspective than I have been taking in the rest of this article. Instead of focusing on individual papers in the search for some type of ‘homogregorius’ production function, the different perspective is to step back and survey the whole. Doing this reveals what I would regard as the most important lesson to be learned from Bob Gregory: That a career devoted to scholarship and public service – to seeking to understand how the economy operates, and how government management of the economy can contribute to the betterment of society – is a career worth having.
Endnotes

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References


Gregory, R. and A. Daly (1990), ‘Can economic theory explain why Australian women are so well paid relative to their US counterparts?’, Discussion paper no.226, Centre for Economic Policy Research, Australian National University.


