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An Essay in Bobology[1]

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What are the principal characteristics of Bob Gregory's writings? My aim here in this "essay in Bobology" is to answer that question. I am not sufficiently knowledgeable in labour economics to review his work properly, since apart from his early writings, labour economics has indeed been his principal field. Hence this is not really a survey of his work.

Firstly, he has researched primarily on Australia, and, to a great extent has published in Australia. He has shown a strong commitment to Australia, and has maintained close contact with public servants deeply involved in Australian policy-making. Furthermore, he has achieved an international reputation principally through his work on Australia, but he has never been particularly interested (unlike many fellow Australian economists) in making an international mark. Indeed, he has not even aimed primarily at an academic readership, but rather at a broader Australian audience, including particularly journalists, politicians, officials and others, for example social welfare activists.

[1] I am indebted to Jeff Borland and Robert Dixon for helpful comments.

There are two qualifications to what I have just written. The first is that he has been particularly interested in comparing Australian labour markets with those of other countries, especially the United States. He has been influential at the National Bureau of Economic Research in the United States in getting Australia seen as an interesting case to be included in any international perspective on labour markets. From this follows, as Jeff Borland has pointed out, that " there is no one who has been more responsible for the 'internationalisation' of Australian labour economics than Bob."

The second qualification is that there have been exceptions to his Australian emphasis both in his early and in his late work. His very first major publication was his paper in the American Economic Review (Gregory, 1971). This very impressive article was, in its time, an important contribution to empirical international economics, getting many citations. I shall refer to it again below. More recently he has written several joint papers on China.

The second aspect of Bob's work is that it has always been applied and highly relevant. He has no interest in playing theoretical games, or even exploring in depth the theoretical implications of his original ideas. This is true even though he has a strong intuitive understanding of theory, as evidenced of his grasp of other people's arguments (or even obscurities) in seminars. Together with his sense of relevance comes a desire and high ability to communicate. In this respect, particularly, young economists should take him as a model. He is certainly not interested in making an impression through obscurity. In a sense, he tells stories - adventures in the search for explanations from the data to real problems. An excellent example is Gregory (1986), to which I refer further below.

Thirdly, Bob's choice of topics for research has been greatly influenced by his concern with welfare - with the disadvantaged or the unlucky. When he first moved into labour economics his concern was primarily with unemployment - its causes and remedies. Indeed that was for many years his single, main preoccupation. By contrast, he was not concerned with price inflation per se, as were so many economists at the time. He was concerned with the relationship between wage inflation and unemployment (the Phillips curve), but more from the point of view of understanding wage determination than understanding inflation. In this area he made an important original contribution. Later he moved into the study of labour markets more broadly, including relative wages. This then led to interest in broader social welfare issues, including, for example, a detailed study of tax and welfare policies for lone mothers.

Fourthly, many of Bob's papers were written jointly, and there have been numerous collaborators. He is obviously a team player. His principal collaborators have been Peter Sheehan (especially on unemployment), Ron Duncan, and most recently and importantly, his wife, X Meng, on Chinese labour market issues. Here is indeed an impressive collaboration, our own Sydney-and-Beatrice-Webb or John-and-Ursula-Hicks team.

Fifthly, there is the most interesting aspect of Bob's work, his methodology. To sum up, he is an empiricist or "numbers man", an honest, conscientious and very innovative one. His American Economic Review 1971 paper started off by showing that popular import demand functions for the US which contained only income and price variables did not give good results. He concluded that prices were slow to adjust to their equilibrium values, and producers employed various rationing devices to allocate rising demand. He used data for various proxy variables, and the results showed the predicted sign and were statistically significant. He found – as so often later – that elementary neo-classical variables did not work so well, and his innovation was to discover appropriate proxies for non-neoclassical variables.

Let me take another article, namely "Wages and Unemployment in Australia" (Gregory, 1986). He is interested in how wages are determined in Australia. First he finds that there was little consistent relationship between unemployment and the rate of nominal wage increases (no Phillips curve), even taking into account price expectations. He then looks for an alternative explanation. He draws on earlier writings by himself and various US authors (Solow, Hall, Okun) that suggest that the labour utilization rate *within* the firm is important for wage negotiations. Here he uses as proxy the level of overtime hours worked, on which there is Australian data. That leads to a statistically significant result in relation to nominal wage increases. He arrives at the important conclusion, further developed in other papers, that the labour market is segmented between the unemployed (mostly long-term) and the employed, and the former have little influence on wage determination.

Perhaps Bob's method – no doubt not unique – may be described as follows. First, try a simple orthodox (neo-classical) or conventional hypothesis, finding that it does not work, or work well. Next, use his deep knowledge of Australian data, try various things, and come up with a better empirical relationship. Then derive an insightful relation from that, a kind of theory, not necessarily spelt out fully. And if he has not discovered an empirical relationship that satisfies him, then he admits to puzzlement and recommends further research.

Is there a bias? There is a bias to keep searching for the truth, and perhaps a slight pleasure that the conventional story, usually a neo-classical one, does not work. The special features are that often he comes up with innovative explanatory ideas, and that he is not prepared to believe anything that is not clearly supported by the data.

Are there alternative approaches? A common one is to keep on testing various possible empirical relationships in a mechanical sort of way. His approach is not mechanical but dominated by his actual detailed knowledge of the Australian economy and by his plain common sense.

But there is another approach that, notably, Bob does not follow. Often the results from the data are not conclusive. Indeed, sometimes (as in the case of many developing countries) there is hardly any reliable data at all. Econometricians are out of a job! What then? I have to confess that this is my approach. We do have models – essentially neo-classical models – in mind. The elements – notably incentive effects and price and income elasticities – may be founded on empirical results from other countries or other episodes, and then we just assume or guess at likely results. We don't look for precision but we believe we get reasonable answers, perhaps described as provisional. But the answers are enough to form views on policy.

Will a substantial rise in real wages reduce employment? If the empirical results are unclear, because of many other variables, then we assume: yes, higher real wages will reduce employment. But, of course, here also a contribution can be made by a Bob Gregory. In Australia women's wages rose substantially relative to male wages as a result of the equal pay decision of the arbitration court, and yet female employment relative to male employment actually rose. The data seems to throw up a challenge to the neo-classical model. Perhaps the two labour markets are segmented, or some other factor was also at work. Here, also Bob made an important contribution (Gregory and Duncan, 1981).

It would be oversimplifying to say that Bob's approach is inductive and mine is deductive, since theory plays a role both at the beginning and the end of Bob's approach, and data, or at least observation of the "real world" in general, lies at the foundation of the basic theory that the deductive approach starts with. Furthermore, if the results of the deductive approach are clearly contradicted by the data, then induction is called for. But there is some distinction. Hypotheses must be tested, but what if the tests are inconclusive? The beauty of Bob's work is that, being imaginative, he generates new hypotheses.

The sixth aspect of Bob's work is that it is both imaginative and original. I have already referred to Gregory, 1971. I shall discuss his "Gregory thesis" article below. Other original contributions are all in the labour market area. He had the basic idea of hysteresis, and of labour market segmentation. And there may be others. In all cases there was an empirical basis from his Australian work, but he did not spell out the theory in detail. In several cases it was picked up by others, or independently discovered by them, and then highlighted in theoretical work (eg the insider-outsider model). This kind of situation is common not just in economics but in the sciences generally. But his name has indeed been attached, at least in Australia, to one idea, and I come to this finally. This was the "Gregory thesis".

In July 1973 the Whitlam government reduced all tariffs by 25%. This was thought of as a major event. Also, the exchange rate appreciated three times from December 1972 to September 1973, and was devalued in September 1973. At the same time there was a big increase in national expenditures. How did these changes affect import flows into Australia? This was the theme of an elaborate and very thorough empirical article (Gregory and Martin, 1976). The basic answer was that the tariff change was of minor importance, while the expenditure increase and the exchange rate changes had roughly equal effects. The article resulted from Bob's connection with the Industry Assistance Commission.

During the same period he conceived of the ideas of his most celebrated article, “Some Implications of the Growth of the Mineral Sector” (Gregory, 1976). Unusually, in this case he started of with an intersectoral model and, indeed, an original one. It showed that the growth of a new export sector would lead to real appreciation, which would have an adverse effect both on the import-competing and on the (non-boom) export sector. His inspiration was that Australian mineral exports (especially coal) had grown sharply since 1964-65. The adverse effect on the import-competing sector was similar to that of a tariff reduction (such as the 25% tariff cut), while the adverse effects on the non-boom export sector was similar to that of a tariff increase. He then showed empirically that the adverse effects on the import-competing sector must have been far larger than would be the effects of the 25% uniform tariff cut. Thus, this article connected with the one I have just discussed. Yet these tariff comparisons on which he focused were not the aspects that attracted attention. Rather, it was the simple argument that the mineral boom must have an adverse effect on import-competing manufacturing industry.

The “Gregory thesis”, as it was named by a journalist, made a great and immediate impact in Australia, but not so much in the academic world but among journalists and politicians. It became one of the most cited economics papers in the Australian press and in parliament. Bob’s model was refined shortly afterwards by Richard Snape in the same journal (Snape 1977). Meanwhile the discovery of North Sea oil reserves led to an awareness of the same idea in Britain. The term Dutch Disease first appeared in *The Economist* 1977. I produced a paper presented at a conference in 1978 (Corden, 1981), with a three-sector Dutch Disease model, referring to Gregory (1976) and Snape (1977), and discussing various implications. Particularly influential in the UK was Forsyth and Kay (1980). This was directly influenced by Bob's paper. In general, the focus of this literature was on the "de-industrialisation" effects of a sectoral export boom and also the implications for exchange rate policy. But it is interesting to reflect that the Great Australian Empiricist has given his name to a thesis or model. If he had developed and generalised it a bit more, and published it internationally the world might remember him for Gregory's Disease.

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