

Conversations with an Eminent Labour Economist: Stephen Machin

Stephen Machin (SM) is Professor of Economics and Director of the Centre for Economic Performance (CEP) at the London School of Economics. He was an independent member of the Low Pay Commission in the UK and is a Fellow of the British Academy. He has been President of the European Association of Labour Economists and is a Fellow of the Society of Labour Economists. This interview, with Sholeh Maani (ShM) Professor of Economics at the University of Auckland, took place at the inaugural Asian and Australasian Society of Labour Economics (AASLE) meeting in Canberra.

ShM: What do you think are the key issues in labour economics?

SM: Well, there are quite a lot of them, and they have moved over time in various ways. particularly the big picture things.

If you go back, quite a way back, to the 1970s and the 1980s, unemployment was obviously a big issue, but with lower unemployment rates today it has a somewhat reduced research profile. Other contemporary labour market questions have come to the fore. For example, real wage stagnation has become a big deal in many countries as has the rise in inequality over the last 30 years, which has occurred differentially in different places. Certainly, big increases in inequality in America and Britain, and other countries have followed suit to a certain extent more recently. Inequality has gone up, and therefore, less of a fair sharing in rewards in the labour market.

ShM: You have contributed to education economics, in particular the academic performance of children across socio-economic backgrounds. The field has also grown significantly over the past decades. Are there still some questions that we haven't answered in education economics?

SM: Yes, there are a lot of questions about what actually works in education. My initial interest for studying the economics of education was the increased importance of education for labour market outcomes over time. And that's actually one of the drivers of inequality as well.

I'm interested in how and why education acquisition occurs. What sort of people acquire different sorts and levels of education, and why? And then, what the impact of that actually is. There are, in fact, many unanswered questions. For instance, we know something about what works in education – in schools, for example. But there are still many questions about why some children in the same schools do much worse or better than others. There are quite a lot of unanswered questions in economics of education.

ShM: How did you become interested in labour economics and when did you know that labour economics was your passion?

SM: It took a while I think. I started studying economics at university and I guess the reason why I first got into economics was because the subjects I was best at, at school, was maths. Economics requires some mathematical skills but also you can apply those methods to analysing social problems in some ways. I was interested in applying rigorous analysis to issues in society, and economics provides quite a good tool for that. Within economics I was first interested in macroeconomics because I'm interested in the big picture. But rapidly I realised that labour economics was probably for me in many ways. Part of the reason for this is because it's probably the most dominant area of applied empirical economics. Also, I'm very, very interested in the labour market of course. Not just the economics side, but on the policy side as well. Applying economics to real world questions was my impetus.

ShM: Do you think that as academic economists we are able to sufficiently prepare our students in the areas of econometrics for applied work, economic theory, and history? And do we need to prepare students in all of these areas?

SM: Well, I think one advantage economics has over other social science disciplines is that it has an actual framework for analysing questions. This is also one of its disadvantages! But, of course, that does give you some structure such that you can actually start to think about how to test key hypotheses based on first order economic principles. I think having that framework is important, but then people need to have the requisite technical skills to be able to apply those methods.

So, it proves important to have econometric skills, mathematical skills, but also other sorts of skills for applying common sense to economic questions and not getting lost in the abstraction that theory sometimes does. Testing first order economic principles is what we should be doing. Confronting first order economic principles with real, and as good data as you can get. I think if you can't get good data you should go and collect it yourself if you can.

The common sense factor is another skill. People seem to have it to varying degrees. Keeping your feet on the ground and trying to do things about the real world, and with good motivation, is an important aspect of doing economics well.

ShM: Yes. Labour economics keeps us honest because we have to look around and see if our theory is actually working or not, and whether or not there is supporting evidence! For young colleagues who may have started as a lecturer or assistant professor what advice would you give them to succeed in research?

SM: Well, to be serious about work. To try and be rigorous about what you do. And more controversially, actually try to have an impact on the real world as well.

ShM: So not to be afraid to be controversial?

SM: Yes. If you need to be.

ShM: What advice would you give to young scholars?

SM: Quite a lot of things. It depends on what level you're thinking. If you're thinking about people who are just starting PhDs, for example, it is trying to find a good subject to work on, but particularly something that you yourself are actually interested in! That is because, of course, you're going to do a much better job of studying something that you are interested in, and something that you think is important to apply economic tools to.

Also important is reading and looking at research widely, and not just confining yourself to economics. Depending on what questions you might be looking at, reading from other social sciences perhaps, can put different perspectives on the way in which you might want to examine questions.

ShM: What is the best way for economists to engage policymakers in a constructive debate? You have done that successfully on a number of occasions.

SM: I think I have done it successfully to some extent, but also unsuccessfully to a certain extent. This is because the role of economists, if you want to advise policymakers, government officials and practitioners, is to offer them what you know and then it's up to them to use it. This is rather than trying to manipulate them in some way. Part and parcel of the role is to have a skill (or to try and learn a skill) of being able to disseminate findings to people who may not have a particularly rigorous economic background. You need to be able to present rigorous empirical research to people, so they can understand it and actually use it in policies is quite important.

ShM: What do you think are some good channels to achieve that goal?

SM: A lot hinges on whoever the individuals are that you're interacting with. Some policymakers are more evidence based than others. It's not unreasonable to say that some people only want to listen to evidence that confirms their priors. Other people are more open minded. That's why I think you should give your findings to people and then they should use it how they wish.

ShM: Do you think there's a global community of economists and how can economists in Asia, Australia, and New Zealand connect and engage with that?

SM: Well, there sort of is, isn't there? I mean there's an academic economics profession that operates across countries, and so of course – the setting up of this Asian and Australasian Society of Labour Economics is a good thing in that respect. We can get closer to having that. I think there is going to be a meeting in 2020 when the other two big associations, The Society of Labour Economists from the US and the European Association of Labour Economics are going to have a joint event with the new Asian and Australasian Society of Labour Economists conference in Berlin in 2020. I think there was a certain number of slots being kept for this society.

So that strikes me as an excellent development because that's actually getting closer to a world labour economics association meeting. And learning about what happens in different settings and seeing different research from different settings will be a very good thing.

ShM: Which one of your studies is your favourite?!

SM: That's a pretty difficult question! I guess it changes. I may answer a different one on a different day. I obviously have some favourites but I'm not sure I can pinpoint a particular one.

Whatever, I think that doing economics should be fun as well!

ShM: That's right. It's a good way to end!

Sholeh A. Maani
The University of Auckland