Conversations with an Eminent Labour Economist: Keith Jackson Hancock

Boyd Hunter

The interview took place at the Tonsley Campus of Flinders University on 4 December 2015. Note that the interview was conducted by Boyd Hunter (BH) who was talking with Keith Jackson Hancock (KJH):

BH: Thanks for agreeing to be interviewed for the Australian Journal of Labour Economics’ series of conversations with eminent Labour Economist. Of course you are singularly appropriate to interview in this series as you founded National Institute for Labour Studies (NILS) in 1972, which is Australia’s oldest labour studies research centre.

KJH: When I founded NILS it was a rather rudimentary organisation. There were various people working at Flinders University on relevant issues, not only in economics but also in psychology and history. My idea was that we could bring people together to collaborate and perhaps write joint papers on various subjects to do with labour. The person who converted NILS to something more was really Dick Blandy. When Dick took over as Director of NILS, he ceased working as a professor of economics and dedicated himself to the running of the organisation full-time. Having done that he had to find ways of funding the organisation and he was very good at that.

BH: The intellectual heritage of NILS is manifest in the remarkable place in Australian policy history. We have both just attended the 2015 Australian labour market workshop held here at NILS, which fills me with confidence that we have a good future for labour economics in Australia with lots of bright young economists attending, participating and actively engaging in the policy debate.

KJH: I agree that there was an impressive number of young and up-and-coming economists at the workshop.

BH: Perhaps you could give us a brief personal biography for our readers? As a bit of a left field question: Are you related to that renowned Australian Historian (William) Keith Hancock, who employed a narrative based approach to economic history in what has been characterised as the ‘Analytical School’ (Coleman 2014).
KJH: He was my father’s cousin (i.e. a first cousin once removed). His father, an Anglican clergyman who became Archdeacon of Melbourne, was brother to my grandfather. (I never met my grandfather as he was dead long before I was born.) I never really had much to do with the famous Keith Hancock, although I met him from time to time in the 1960s and 1970s at the ANU. I had a few conversations with him and went back to his house once. I read a few things by him including *Australia*, which for its time was probably a best seller (Hancock 1930). He also wrote another well-known book on the Monaro district in New South Wales, but I haven’t read that (Hancock 1972). At the time of writing *Australia*, Hancock was much influenced by Edward Shann, the renowned economic historian (Shann 1930). Before his appointment to a Chair at Adelaide University, WKH worked as a historian in Shann’s department of economics and history at the University of Western Australia. Shann’s influence comes through in *Australia*, which appealed to the conservatives in society (and probably still does).

BH: Yes, but WKH did have several memorable quotes, for example ‘Wool made Australia a solvent nation, and in the end a free one (Hancock 1930: 12). While he undoubtedly was an old-fashioned economic historian, he did have less conservative moments such as when he said ‘Men do not emigrate in despair, but in hope’ (Hancock 1930: 39).

KJH: In his later years he became more radical. For example, he ran a strong (but unsuccessful) campaign against the communication tower on Black Mountain in Canberra.

BH: WKH even contributed to one of my favourite causes, the campaign to save Fraser Island as a wilderness in the 1970s. It may interest you to note that the recent Cambridge Economic History of Australia has cited more of your publications than those of WKH (Ville and Withers 2014). So I don’t think you can mount a plausible case that he is the more famous of the Keith Hancocks any longer. However, many of your published research predates the widespread usage of the internet. Given some of our younger readers may only have a passing acquaintance with a library, could you give us some of the major highlights of your academic career in terms of publications?

KJH: Let me say first that I don’t have a very long publication list. Many scholars today will have four or five times the number of publications I have in my CV. As to highlights, I think I was one of the pioneers in the discussion of wages policy in Australia. If I were to distil a number of highlights it would the article on wages policy and price stability in the *Economic Journal* (Hancock 1960) and a series of other that were re-printed in the textbook series, *Australian Labour Relations: Readings*. A chapter in the Report of the Committee of Economic Enquiry (the Vernon Committee) (in 1965), about wage policy, was largely my work. One theme of my research has been the relative merits of arbitration and collective-bargaining. Of course the one substantial book I wrote (other than a textbook) was on the history of Australian wages policy (Hancock 2013).
BH: You are a graduate of Melbourne University, where you got a First Class Honours in Economics and History in 1955, and completed your doctorate at the London School of Economics in 1959. You are one of two Australians who are Honorary Fellows of the London School of Economics, the LSE (along with Joe Isaac). How important was your LSE training to your future career?

KJH: It was very important. Both Joe Isaac and I were lucky to have an outstanding supervisor, Henry Phelps Brown (1959, 1962). Joe had had Henry as a supervisor in the late 1940s and when it came time for me to go overseas it was Joe who suggested I should go to the LSE and he offered to arrange with Henry to take me on as his student. He was a very good supervisor who was largely responsible for me completing my thesis in the minimum allowable time of 20 months.

BH: Wow. Can I ask you what he did to make this happen? Did he put the ‘fear of God’ into you or did he support you? The carrot or the stick?

KJH: You never had the feeling that there was a stick. However, he did expect you to submit frequent material to him. If a month passed without him receiving something, he would politely enquire what was going on. When you gave him a chapter or part of a chapter, it normally got returned to you with detailed comments within three or four days. A very compassionate man, a very wise man. I benefited from his direct supervision, but most of all I absorbed his way of looking at the world.

BH: So he was more than a supervisor, he was a life mentor.

KJH: Certainly. Another factor was that the LSE was a very good place to work. My thesis topic was based on the UK and so I didn’t have to leave the LSE library to get all the information required. I used to turn up at 9:30 AM when the library opened and leave at 5 PM.

BH: We do not want to make the students feel too jealous of bygone days. However your experience is a challenge for supervisors who need to put time into their students if they are going to thrive. In the current ‘publish or perish’ climate, it is not clear that current supervisors have enough time to provide life mentoring, but it is something to aspire to. I certainly will take careful note of your experience and try to be a better supervisor.

KJH: Since I have retired, I have supervised a few students and I can say that it usually takes a lot of time to do a good job. However I also supervised Josh Healy, who, I must say, was a piece of cake.

BH: Of course you are much more than a labour economist as you were appointed the foundation Professor of Economics in the University of Adelaide in 1964, founded the discipline of Economics at Flinders University in 1966 (along with Mat Polasek and Bob Wallace), before ascending to Vice Chancellor of that university in 1980. Of your career as academic, what was your major achievement in terms of academic administration?
KJH: When I was first appointed (in 1964) to be a Professor of Economics, it was at the University of Adelaide’s new campus at Bedford Park. In 1966, the two universities were formally separated and I then became the foundation Professor of Economics at Flinders. My first task was to make the Economics discipline work (we didn’t use the word Department). I think we were very successful. For most students we were a second choice to the University of Adelaide, but nevertheless we did attract some very good students. I’m thinking of people such as Don Russell, Kevin Davis, Roger Sexton and Peter Martin among others. Before too long I took on the responsibility of being chairman of the School of Social Sciences which gave me a bit of a taste for administration. Then in 1975 I was asked to be one of two Pro Vice Chancellors to assist the then Vice Chancellor in running the University (it was a 50% appointment, with the rest of the time left for normal academic pursuits). In 1980 I became the Vice Chancellor. Overall I could claim a couple of major successes. “First,” I got the economics discipline going. Rather sadly, I have to note that it has disintegrated and it hardly exists now. The other achievement was keeping a young institution functioning effectively. This was achieved, in part, through maintaining good relations with other universities, particularly the University of Adelaide. Another achievement was the establishment of an outstanding medical school which came to full life in the 1980s. Of course the real credit belongs to those in the school, but we provided them a lot of assistance because they deserved it. I used to say to colleagues (to the annoyance of some) that the medical school had the best teachers, the best researchers and the best administrators.

BH: NILS of course still flies the economists’ flag today. Indeed the 2016 Australian Conference of the Economists is being run by NILS and will to be held at the Flinders University in the middle of the year.

KJH: I should have qualified my earlier statement about the virtual demise of the economics discipline by saying that NILS now carries the economics flag at Flinders.

BH: The other noteworthy aspect of your career is how you made a seamless transition to being a practitioner as well as a public intellectual. While you continue to hold honorary appointments at Adelaide and Flinders Universities, your initial ‘retirement’ consisted of leaving the university sector in 1987 to become a Presidential Member of the Australian Conciliation and Arbitration Commission (later the Australian Industrial Relations Commission).

KJH: There was gradual progression or transition into this line of work beginning with a number of public inquiries that I conducted, especially the enquiry into Australian Industrial Relations Law and Systems (sometimes referred to as the Hancock committee). Its recommendations relating to reform of the arbitration system led to the Industrial Relations Act 1988 (Commonwealth Parliamentary Papers, 1985, vol. 17, paper no. 236). My chairing of this enquiry probably led the government to appoint me as Deputy President of the Australian Conciliation and Arbitration Commission (I took up the appointment in in 1987). In effect, though not formally, I succeeded Joe Issac at the Commission. We overlapped by about three weeks.
BH: You participated in several significant national wage decisions, as well as other major decisions such as on the 1989 Pilots Dispute. That must have been a particularly challenging and exciting time given that Australia was fundamentally reforming its industrial relations rules to make a more decentralised system that can respond to the exigencies of a modern economy with all the attendant global pressures?

KJH: I certainly enjoyed working on the national wage cases. The subject matter was interesting and important, and on the whole the advocates we had were good and I could make sense of their arguments.

BH: Do you have any regrets over the directions that Australian Industrial Relations took?

KJH: My biggest disappointment was the outcome of the April 1991 National Wage Case decision, when the Commission refused an application to establish an enterprise bargaining principle. As a result, the government and the ACTU tore up the book.

BH: So the rules fundamentally changed after that date?

KJH: Under the influence of Paul Keating, the government legislated to deprive the commission of its authority to test industrial agreements against public interest criteria. This was part of policy of encouraging the emergence of collective-bargaining, or as it was then known enterprise bargaining. I was very dubious about the merits of enterprise bargaining and I still am. Nevertheless the whole period was still exciting. As you mention, I was heavily involved in the aftermath of the pilots dispute which ran for three or four years. The formal issue in that case was whether the Australian Federation of Air Pilots had called a strike and hence should be deprived of the right to represent the pilots of Australian Airlines (now known as Qantas) and Ansett. The pilots’ case was a long, but fascinating, one. My decision in the pilots’ case was book-length and is, I think, a good reference for anyone who is still interested in that episode.

BH: The government certainly showed a determination to break the power of that union.

KJH: The pilots union were always a special case. Back in the 1960s and into the 1970s they had their own tribunal, but returned to the jurisdiction of the Arbitration Commission in the 1980s. The pilots union didn’t like arbitration, because the airlines had always capitulated to their demands – hence the Federation preferred direct bargaining.

BH: Did this situation reflect the effective airline duopoly which was facilitated by regulations that limited competition from international airlines that flew over the country and largely empty planes?

KJH: That wasn’t what precipitated strike, which was caused by limitation of wage increases under the Accord. If the pilots had got their way, the Accord would have been broken.
BH: Ultimately the strike did crystallise the political will to increase competition which in turn further undermined the power of the pilots union. Now I want to get back to your skepticism about enterprise bargaining.

KJH: At the time of the 1991 decision, I and the other members of the bench had a fear that the return to enterprise bargaining would cause a return to the wage breakpoints of the 1970s and early 1980s. That fear did not materialise, and on that score I was wrong. The other fear was that it would lead to inequities in the labour market, where workers who happened to have strong union representation would do well, whereas workers who were unorganised or were organised by weak unions would do poorly. In substance I think that is what has happened. The story is complicated by the decline of union membership which has affected many unions. Nonetheless there are still some powerful unions in the transport sector, the mining sector and the public sector. At the time of the 1991 decision, my colleagues and I were skeptical of claims about the predicted beneficial effects of enterprise bargaining on productivity. On that, we were right.

BH: I note with interest that you chaired the National Superannuation Committee of Enquiry (1977) and were a member of inquiries into employment statistics and the financial system (see Hancock Collection at Flinders University). For the South Australian government, you also chaired a Committee of Enquiry into the Racing Industry (1974). You have chosen a very active route to public engagement, but not everyone can follow this path. What do you think is the best way for most economists to engage policy-makers in a constructive debate?

KJH: First of all you have to want to do it! There are a lot of members of the profession without any kind of zest for public engagement. There is of course no need to apologise for being an academic in a University. However, if people do want to engage in the public discourse and directly influence public outcomes, they must want to do it and be willing to speak the language that an informed public will understand. Such people will have to publish articles in newspapers or at least well read magazines, and be prepared to respond to the media. If I might just interpose there—years ago if the media wanted an opinion on economic issues of the day they would talk to a professor; now they would talk to a business economist. I think the reason is that when they talk to a professor they might be told ‘this is not my field’ or be dismissed with ambiguous statements such as ‘on the one hand’/‘on the other hand’, or simply that ‘I don’t know’. You can understand from the perspective of the media, who have to earn a living, that they prefer the economists from the banks and consultancies who are willing to give them a quick answer and are quite willing to predict the date on which the Reserve Bank is going to put up interest rates or what the CPI is going to do in the next three months. I don’t think those predictions are credible, but they go down well with the media. This is a problem that academic ‘commentators’, if they wish to retain their academic integrity, find it difficult to overcome.

BH: I don’t suppose you can blame academics for not wanting to say things that are plainly wrong, but to speak the language in a clear and concise way and simply wanted to communicate your ideas to the public is something that has gone
missing among many academic economist. Did you yourself practice this mode of communication?

KJH: Overall I did a few interviews with the electronic media and occasionally with journalists in the print media. However, I did write articles with a contemporary relevance, which I think were mostly intelligible (e.g., on Wages Policy). I gave papers at conferences attended by non-academics and adapted the content accordingly. One effect of this engagement was that I was seen in government circles as someone who had expertise in industrial relations and hence appeared to have been listened to.

BH: In a sense the incentives of the modern academic is to publish or perish and hence secure funding through writing rather technical and inaccessible publications. Is there some kind of trade-off between perceived academic rigour and the incentives to communicate with the public and policy-makers?

KJH: I was very lucky. I was born in the year which had the lowest birth rate in recorded Australian history. Furthermore I began earning my living in a time when the clientele to which we were catering were the baby boomers. And so people such as myself were in a favourable position. I got my chair at age 28 and that wouldn't happen now. Certainly I would not have got a chair on what I had achieved at that stage judged by today’s standards. The pressure on academics in those days was not nearly so as intense as they are now. I was able to fit in a full teaching load along with a moderate amount of research and publication, and a deal of engagement in public inquiries and public debate.

BH: I wasn't trying to make you feel guilty Keith, rather that it is important to acknowledge potential trade-offs and choices that modern academics have to make. It is certainly not impossible to engage public debate in the current era, and I think the recent Australian Labour Market Research workshop is a marvellous example of researchers engaging in policy relevant activities with the rigour that involves the latest econometric techniques. On another tack, you have received considerable external recognition via your election as a Fellow of the Academy of the Social Sciences in Australia (ASSA) in 1968, and election as President of the Academy from 1981 to 1984. You have even been appointed an Officer in the Order of Australia in 1987 for your contribution to education and became a life member of the Academy in 1996. The annual Keith Hancock Lecture is part of the Academy Outreach program since 2009. These lectures try to make linkages with your career and works.

BH: John Piggott’s 2013 Keith Hancock Lecture starts with a reference to your inquiry into national superannuation in the mid-1970s, that suffered politically from the change in political regime with demise of the Whitlam Government. However, the main analysis in the lecture unpacks the economic policy implications of an aging Australia. Notably the argument creatively combines several areas of economics with other recent economic approaches such as behavioural economics and experimental economics. Given your multi-stranded approach to research, I presume that you approve of this sort of synthetic approach.
KJH: The direct answer to your question is yes. I did indeed listen to John Piggott’s lecture and it was excellent. With respect to behavioural economics, it is an area where the discipline has benefited greatly from the insights from psychology and other behavioural sciences.

BH: John King’s 2012 Keith Hancock lecture argues that ‘economics is unique among the social sciences in having a single monolithic mainstream, which is either unaware of or actively hostile to alternative approaches’. How important is the role of pluralism in economic debate and, if it is important, how should it best be fostered? Did you make any such arguments in your career?

KJH: No not really.

BH: So that was King himself?

KJH: Yes, but there is substance to the issues raised. Yes, there is a central tendency in the profession but that doesn’t account for the full range of the discipline as practised. Certainly, there are eminent Australian economists of my generation, such as Max Corden and Ross Garnaut, who by no means were part of a monolithic mainstream.

BH: In a sense that’s what we’re talking about when we discuss the tensions between the applied economic research and the economic purist. It’s tricky to reconcile how the real world institutions operate with respect to economic theory.

KJH: There is probably less tension in labour economics than, say, in financial economics.

BH: Any student of industrial relations or labour economics between the 1970s and 1990s would have been sure to encounter a large number of articles authored by you on their reading list. In your academic work on Australian labour markets, you were one of the pioneers in the use of empirical methods. For example, you developed methods for evaluating the effects of Australia’s system of labour market regulation on wage outcomes – such as on the rate of wage inflation and the extent of dispersion in wages earned by workers in different occupations and industries.

KJH: Those things are true but I would have to say the techniques I used were rudimentary and would not be considered respectable in current economic practice.

BH: Yes maybe so, but the data you were using was highly aggregated, as was most of the data available in those days. The Labour Force Surveys did not start until the 1978. Hence the data to which you had access was not amenable to the fine-level econometric analysis that thrives on individual-level data and unit record information. In the 2010 Hancock Lecture, Stuart Macintyre reflects on teaching and research of social sciences in Australian universities and explores their contribution to public policy. What do you think of the state of teaching of labour economics in our universities? Are the number of courses and types of courses adequate? Would you change the way economics is taught? If so, how?

KJH: I don’t really know a lot about the current teaching practices, particularly outside Adelaide. There are plenty of good people teaching labour economics around
Australia. Some who come to mind are Jeff Borland, Mike Dockery, Alison Preston and Russell Ross.

BH: In the first interview I conducted in this series, Alison Booth pointed out there has been some tensions in the disciplines of labour economics and industrial relations (especially in the British context that she was more familiar with). Do you think there should be a stronger link between labour economics and industrial relations?

KJH: Yes. In many respects, but not all respects, if you separate them you come up with misleading conclusions. An institution-free labour economics is a half-baked discipline. Likewise, an economics-free industrial relations is often half-baked as well. I pretty much see them as a joint activity.

BH: I suppose it is the fate of many disciplines in the current universities to become fragmented and hence lesser than they would have been had the sub-disciplines remained together.

KJH: I should qualify what I said about industrial relations in that there is a branch of it that is essentially, and could be more properly described as, human relations. That doesn’t have much to do with economics.

BH: Nonetheless labour economics and industrial relations can be considered complimentary in a substantive sense. On a related but different tack, do you think that labour economics can and should be viewed as a distinct sub-discipline of economics? If so, what distinguishes it from other economic analyses?

KJH: Labour economics may very well have a greater need for institutional content than other sub-disciplines. Having said that, I note that agricultural economics and monetary economics require a fair degree of familiarity with relevant institutions. Macroeconomics as it is currently practiced is basically institution-free.

BH: On your return to academic life after your stints in the various commissions, you continued to write about both contemporary industrial relations issues and the history of wage setting. Some consider your 2013 book as providing the definitive history of Australian wage fixing up to World War II. I note with interest that the very first Keith Hancock Lecture was on wage inequality. In the 2009 lecture Thomas Lemieux demonstrated wage inequality has been increasing in most industrialized countries over the last three decades. What do you make of the increase in overall inequality?

KJH: Increasing wage inequality does seem to be an international phenomenon. While we do have a problem in Australia, it is a greater one in other countries such as the US. Wage inequality over there has become a very great social problem.

BH: What is driving it? Is there some sort of capital bias in growth or is some of fashion class-based explanation?

KJH: You have to look at the dynamics of the economy as opposed to class-based explanations. The growth of competition from developing countries is important, particularly in the lower skill areas. The computerisation of a great deal of work
has degraded a number of occupations. Another common factor is the decline of unions, which have occurred in Australia as it has elsewhere. Basically the cause of growing inequality is found in economics. You can tell a story that up until the third quarter of the 20th century spread of education was an equalising force. Also a secular decline in agriculture, along with the rise of jobs in manufacturing and the service sector were equalising forces. To some extent these factors came to an end.

BH: The supply of highly educated workers does not seem to have come to an end with an ongoing expansion of education that was demonstrated in the plenary address to the 2015 ALMR by Tom Karmel. In his presentation there was a huge spike in higher education in Australia in 1973, which continued almost unabated in a rather impressive arc to the present day. Karmel showed that of the current cohort of women, over 50% will acquire a degree-level qualification. There is a certain saturation in what you can do with education to address inequality.

KJH: Indeed that saturation may have been reached by the 1970s, and that is where you would have to consider other factors such as the expanding role of China, technology biased growth and the decline of unions.

BH: Richard Freeman (Harvard University) has advocated employee-share schemes as a means of addressing technology bias in growth (e.g., the Fred Gruen Lecture presented on 28 July 2015, ‘How to solve the inequality problem that is plaguing capitalism’). His argument was increasing automation has meant that inequality is driven by the ownership of capital (or machines) and therefore workers need to have a greater stake in the capital that determine production (and their productivity). Freeman claimed that the policy options for addressing inequality are circumscribed and apparently convinced Hillary Clinton to adopt a Profit Sharing Plan in her economic platform for her election campaign.

KJH: Yes and we have employee-share schemes in Australia. They are called superannuation. Our (compulsory) super schemes probably don’t mitigate wage inequality, but they do mitigate overall social inequality.

BH: How important are wage-setting institutions for shaping societal inequality (given the mobility of capital)? To the extent that labour market institutions differ between various countries, does it mean that wage setting institutions do not actually make that much difference?

KJH: I take your point about the mobility of capital: if we do too much on the wages front, capital may flee. However, I am sceptical about how real that danger is and I wouldn’t let it affect my policy choices too much. There is considerable research on the minimum wage in America, which argues that one of the main causes of growing inequality has been the stagnation in the minimum wage. I note there are some proposals in the US for substantial increases in minimum wages. We do have a reasonably good safety net here and that is a reason why the level of inequality in this country has not grown anywhere near the extent it has in the US. Coincidentally, the minimum wage in the UK has been increased dramatically by the Conservative Cameron government. These are encouraging signs that people are really becoming concerned about wage inequality.
BH: When I was talking to Alison Booth in 2014 she highlighted some of the rationales for enhancing the minimum wage, including monopsony arguments (Hunter 2014). What are limits to firms’ collective capacity to pay? How would you know when the average firm is paying the marginal value product?

KJH: Your questions go to what are the elasticities of demand for labour? The preponderance of evidence (as Freeman has attested) is that these elasticities are very low. That is, you can do a great deal with minimum wages before you have a perceptible impact on employment.

BH: However, we would expect elasticities to vary considerably amongst industries. For example, they should be higher in sectors exposed to the global economy and the tradable sector. In a sense that gets back to fairness in the labour market in that some industries may only be able to afford lower wage increases.

KJH: Yes, this is where competition from China comes in as that increases elasticity of demand for labour – but that is in some ways mitigated by exchange rates.

BH: It is but another complicating factor is that many businesses choose to outsource their labour requirements offshore.

KJH: What you are talking about is the effect of big differences. The proposition that elasticities are low applies to small differences in wages. So you can ease up the minimum wage without having to worry too much about employment effects. You can’t double the minimum wage as that would have employment effects.

BH: Finally do you have any advice for people thinking of starting a career out in the profession (of Labour Economics)?

KJH: People starting out in the profession have to be technically proficient (much more proficient than I am or ever had to be). Proficiency is not only required to carry out research, but to understand what other researchers are doing. And the second piece of advice is don’t forget to be familiar with the relevant institutions.

BH: And of course find a good supervisor and mentor like Henry Phelps Brown. Apparently a good dose of luck doesn’t go astray either. Thanks for your time Keith, I think that is a good place to finish.

References


Hancock, W.K. (1930), Australia, Charles Scribner’s Sons, New York.