

How Justin Wolfers became a bright Aussie export

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Economist, academic, dad: Justin Wolfers with his two children Matilda and Oliver.

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The path from gambling at a Sydney racetrack to sparring with the world's intellectual elite led Justin Wolfers to become one of Australia's more unorthodox and influential academic exports.

When Justin Wolfers arrived at Harvard University 17 years ago, one of his peers thought he appeared out of place. His long blond locks and unmistakable Australian accent didn't fit the mould of a serious PhD economics student. "When I first met Justin I was totally dismissive of him, I didn't think he would be interesting," recalls Betsey Stevenson. "It never even occurred to me that he could be an economist because of that Aussie surfer look." The Sydney-born Wolfers has always been something of a maverick. Despite scoring 99.8 on his HSC, he had little intention of going to university. Instead he pursued a professional gambling career. When that failed he studied law and economics at the University of Sydney, where he was fond of walking around in bare feet.

Today, the 41-year-old is one of our brightest economics exports. Since arriving in the US on Fulbright and Reserve Bank scholarships in 1997, Wolfers has carved out a big reputation for himself in economics, political, policymaking and media circles. He is on first-name terms with US Federal Reserve chair Janet Yellen. His tweets about economic policy are read by more than 54,000 followers. And that once dismissive colleague from Harvard is now his life partner and the mother of his two children. Betsey Stevenson also happens to be a senior economic adviser to US President Barack Obama.

Wolfers and Stevenson have moved around the US together for their respective careers, landing in Washington DC last year for Stevenson to take up her job at the White House. Wolfers took leave from his position as professor of economics and public policy at the University of Michigan to take on a senior fellowship at influential Washington think tank the Brookings Institution.

Together for nearly two decades, the couple is rather famous in the US for not being married; indeed, they've been interviewed in *The New York Times* about their reasoning. The decision not to marry is, not surprisingly, based on economics. Their accountant advised it would cost between \$US15,000 and \$US20,000 in extra tax each year if they were married; in the US, the more similar a husband and wife's incomes are, the more combined tax they pay.

"The slightly better answer than tax evasion is that we think as individuals we can make better contracts," Wolfers says. "As an economist, you listen to the marriage vows and they're essentially a contract. Marriage is a one-size-fits-all contract, either written by the church or state. There's not a lot of discussion about who's going to raise the kids, how you're going to raise them, if anyone's going to stay home. So we have written our own

contract.”

Wolfers has pushed economics into non-traditional areas, combining the dismal science with psychology, sociology and politics. In the process he has succeeded where most economists fail: in making economics accessible, understandable and relevant to the masses. Greg Mankiw, the chief economic adviser to former US president George W. Bush and a renowned conservative, is effusive in his assessment of his more left-leaning Australian counterpart, who was his research assistant at Harvard. “Justin is one of the most creative and thought-provoking of his generation of economists,” Mankiw says.

Wide-ranging research

Among Wolfers’ oft-cited research is a paper demonstrating that the introduction of no-fault divorce laws in the US in the 1970s did not cause the subsequent sharp rise in divorce rates. He has also debunked the long-accepted theory that income and happiness are unrelated, and separately showed that there is no evidence that the death penalty deters crime.

Sports fans may know of him from a memorable 2007 front page story in *The New York Times*. In perhaps his most widely publicised piece of research, Wolfers concluded that white basketball referees called fouls at a greater rate against black players. Using National Basketball Association data from 1991 to 2004, he found that “the probability of a team winning is noticeably affected by the racial composition of the refereeing crew assigned to the game”.

Wolfers has kept his hair long and still looks more surfer than academic. But as a surfer, it turns out he makes a very fine economist. “My one adventure on a surfboard was profoundly unsuccessful,” he admits. “I managed to stand up for eight seconds but Betsey couldn’t get the camera out in time.”

Wolfers has always identified with the left side of politics. Growing up during the Hawke and Keating eras, he witnessed major economic reforms such as the floating of the dollar, tearing down of tariffs and deregulation of the financial system. It gave him faith that the left could have economic credibility with a social conscience. “In your teens one is dealing with an emerging social conscience,” Wolfers says. “There was a sense of empathy and that my notions of fairness were better represented by the Labor party because I think there is a deeper commitment to egalitarian views. You can be lefties without fearing markets. The American term would be market-oriented liberal.”

His ideology was likely also shaped by his upbringing. Wolfers’ mother, Ros, was a part-time maths teacher and his biological father, who he now has no contact with, was a university professor. He witnessed a messy divorce between them when he was 15. His idyllic suburban life was turned on its head when Ros was forced to move to a caravan park with some of her six children. Eventually they rented a two-bedroom house. “It was a rough little period,” Wolfers says. Despite the interruption, there was a strong edict in the household that study was a priority. Ros turned one of the two bedrooms into a study and the six children slept together in the adjoining garage. Justin, the second eldest, was doing his HSC at the time. “Mum got one bedroom and I got the study,” he recalls. “There was a very strong sense in the house that academics came first. In almost every respect I got given everything I ever needed.”

Successful achievers

All the Wolfers clan has gone on to enjoy career success. Darren, the eldest, is an anaesthetist. Lachlan works as a tax partner at big four accounting firm KPMG in Hong Kong. Younger sister Nerida is a human resources executive, while the two youngest brothers Shannon and Rohan work in private equity. Both Justin and Shannon won the university medal for economics in their honours years. Says Lachlan: “We were extremely privileged to have a mother who dedicated herself completely to her kids and to creating an environment that tried to encourage success, in sport and academia. My own view is that any success we have had is a function of two main factors – an incredibly hard working and dedicated mother who sacrificed a lot personally to effectively raise all six kids largely by herself – and an ability we all seem to have to communicate complex ideas in a very simple way. If you look at a lot of the economic analysis that Justin does, it’s about making economics accessible and applicable to the average Joe.”

As a student at the selective James Ruse Agricultural High School in Sydney’s outer northwest, Wolfers was very good with numbers. Back then he saw his outstanding high school marks as merely an insurance policy in case his chosen career – trackside – didn’t pay off. His punting dream began at the age of 14, when he undertook work experience with Ian Craig, the voice of Sydney racing for almost half a century. He had little interest in the horses but fell in love with the track, or more precisely, the gambling. He quickly found weekend work with a bookmaker. “At the end of my first day he gave me \$20,” Wolfers says. “As a 14-year-old it was incredibly exciting and I

thought it was awesome.”

The young bookie’s runner would monitor the odds competitor bookmakers were offering punters and relay the information back to his boss. The job also involved “laying off” bets, a form of hedging in which bookmakers make bets with competitors to limit their potential losses from big bets they have accepted. During those formative years, Wolfers worked racetracks at Randwick, Warwick Farm and Rose Hill, as well as the greyhounds at Wentworth Park and the trots at Harold Park. “I originally wasn’t planning on going to university,” Wolfers says. “I was an obnoxious little shit and pretty full of myself. I’d decided I wanted to work for the bookies for a couple of years and then branch out and become a professional punter myself.”

Racetrack impetus

In hindsight, he suspects his passion for economics was sparked at the racetrack. “Bookmaking is great training in economics,” he says. “There was a time when I could walk past the bookie’s [odds board] and tell you the bookie’s [winning] percentage. Betting markets are like an open financial market. The difference to the stock market is virtually nothing. It’s a tremendously efficient market.” Later, Wolfers would teach the economics of sports betting at the Wharton School of Business at the University of Pennsylvania.

As it turned out, Wolfers was about as good a professional punter as he was a surfer. In his first week in full-time work after leaving school, his boss asked him to “lay off” \$20,000, spread across 10 bookmakers. At the time he was used to laying off about \$2000. Being responsible for such a large amount of money – \$20,000 in 1989 is equivalent to about \$39,000 today – made him so nervous that he lost count of which bookmakers he’d placed the bets with. It soon emerged that he’d cost his new boss \$2000. “I got fired one week into my new job,” says Wolfers, who cashed in his insurance policy and trotted off to Sydney University, where he took to law and, in particular economics, with gusto.

The regularly barefooted student became treasurer of the student union and active in student politics as an unaligned Labor party member. Tony Burke and Andrew Leigh, now federal Labor frontbenchers, were among his peers. “The most infamous is Joe Tripodi,” Wolfers says. Leigh, now federal shadow assistant treasurer and a well known left-leaning economist, was the first person Wolfers sat next to in his economics class.

In many ways, they are cut from the same cloth. Wolfers and Leigh grew up in the same Sydney suburb of Pennant Hills and attended the same high school. They scored identical HSC marks. Their fathers were both academics. Leigh followed Wolfers to Harvard. “Justin had a big impact on me studying economics and my research,” Leigh says. “It was while I was staying with Justin in Boston that I became interested in doing a masters at Harvard and then a PhD.” They are both married to Americans and Wolfers was a groomsman at Leigh’s wedding in Pennsylvania. The pair co-wrote an influential economics paper in 2002. Their research showed that betting markets were much better at predicting political election results than polls. The well-publicised findings caused media outlets in Australia to pay much closer attention to gambling odds in picking elections.

Wolfers’s interest in the intersection between economics and politics led him towards public policy. He applied for graduate positions at Treasury and the Reserve Bank of Australia. “I really wanted the RBA because they had this reputation of sending people overseas,” he says. After working in the central bank’s labour market team for about two years, at age 24 he was sent to Harvard, where on dual scholarships he did a PhD in macro-economics and labour economics. His original plan was to study for three or four years and return to his family and then-long distance girlfriend in Sydney. “Justin told me he was certainly going back to Australia and couldn’t imagine why he wouldn’t,” says Stevenson.

Spark lit

Shortly after arriving in Boston, Mankiw invited Wolfers to attend a conference hosted by the National Bureau of Economic Research, where some of the world’s top economists were debating research papers. It was a light-bulb moment. From his work experience in Australia, Wolfers knew the Reserve Bank replicated the best American research and adapted it to Australia. “I was in that room and understanding that what we were saying in that room on that day would have direct implications for the research done at the RBA and how the RBA would react,” Wolfers says. “If that’s true for the RBA you’ve got to assume the same is true for New Zealand, India, England and 60 countries around the world. It was at that moment I understood the power of US academia on the world stage. So I realised if I got invited to be part of that club, the impact and reach was much greater than going home.”

It was about this time, at a first-year graduate school breakfast, that Stevenson met and dismissed the young Australian. At a labour economics seminar not long after, she realised her initial impressions had been misguided; Wolfers was a whole lot smarter and more interesting than he looked. In his first year at Harvard, he had co-

written a research paper with his supervisor Olivier Blanchard, now chief economist with the International Monetary Fund. The pair still jog together in Washington DC. "It was very clear very early on he was going to be a star," Stevenson says. After getting to know each other at a Halloween party, they started dating. It was not a traditional American courtship where the man woos the woman by taking her out on several formal dates. A strong feminist and not religious, Stevenson was open to a more casual approach. "Ours was clearly an Australian courtship," says Wolfers with a laugh.

Having fallen in love with the American economics club and Stevenson, he faced a dilemma. The Fulbright scholarship required him to return home for two years after completing his studies at Harvard. With the help of an immigration lawyer, and having repaid some of the Reserve Bank scholarship money, he was able to convince the authorities that he was achieving more for Australia in America than he could at home.

Permeated with economics

Wolfers and Stevenson have two children, Matilda who is four-and-a-half, and Oliver, one-and-a-half. The family literally lives and breathes economics. "Because economics infuses their personal lives and they talk economics constantly, they're more steeped in economics than virtually anyone else I know," says Andrew Leigh. "If you're out with Justin and you're thinking about getting another beer, he'll tell you the discount rate calculations that he's doing to weigh up tomorrow's headache versus today's pleasure. Or talking about their children, how Betsey has done the breast feeding and Justin's changed the nappies, he'll say that 'she does inputs and I do outputs'."

The couple has co-written several unconventional papers on family, love and beyond. In 2008, they refuted the long-accepted Easterlin Paradox that income and happiness were not related. Earlier, while at Harvard, their research showed that US laws introduced in the 1970s allowing either spouse to initiate a divorce explained very little about the rise in divorce. Rather, they found that in states that adopted such laws, women's suicide rates dropped, domestic abuse declined and the number of women murdered by their husbands fell.

Wolfers is a prolific tweeter and not shy of voicing his opinion on contentious political and economic issues. He has mocked Republicans on Twitter for opposing a minimum wage rise. "Would you support a policy that would create 500K jobs, but plunge 900K into poverty and cut wages for 25 million?" he tweeted in February. In March, he published a chart on Twitter, explained by the following statement: "Who is the real fiscal conservative? Obama is running a smaller deficit than Reagan at the same point in his term." He has also criticised the Abbott government, slamming the economic credibility of its direct action climate change policy on the front page of *The Sydney Morning Herald*.

Stevenson is one of three members of President Obama's Council of Economic Advisers. She briefs the President on key economic issues and is sometimes sent out to the cameras to defend the government. Wolfers says he feels "quite free in criticising the Obama administration". He is on the record saying the US fiscal response to the financial crisis was not large enough and that the administration's obsession with supporting manufacturing is misguided. "I've been in a factory and I have no desire for my daughter to grow up in one," he says. "Because I talk to Betsey and am enormously sympathetic to her, if she takes a policy position I am likely to think it's not stupid."

When Stevenson is travelling with the President on Air Force One or managing issues late at night in the White House, Wolfers refers to himself as the "trailing spouse". That's probably a little modest. In between his full-time role at Brookings, he writes for *The New York Times* and runs the occasional marathon. Brother Lachlan is impressed with how the pair manage their careers. "She's had this opportunity so he's effectively played second fiddle to her career," Lachlan says. "That's not always easy for men in high positions."

Among the elite

Sitting in the busy cafeteria at the Brookings Institution, Wolfers doesn't look like a spouse frustrated with his position. The room is buzzing with brainpower as scholars discuss the wider world over lunch. At a nearby table recently retired Federal Reserve chairman Ben Bernanke sits with three fellow economists. "You get to be part of this amazing club," Wolfers says. "For what I do, this is the world stage." He's fresh from co-hosting a conference attended by dozens of eminent economists. The aim of the Brookings Papers on Economic Activity conference, founded 40 years ago, is to put leading economic thinkers in one room to debate cutting-edge research. Participants included Nobel prize winner George Akerlof, who is Janet Yellen's husband; former Fed vice-chairman Donald Kohn; Nobel Prize-winning *New York Times* columnist Paul Krugman; Goldman Sachs chief economist Jan Hatzius; Federal Open Market Committee member Daniel Tarullo; and Bernanke.

It was not long after he arrived in the US that Wolfers first met Yellen, then a top academic economist who was yet to begin her central banking career. Conducting his first big economics presentation, Wolfers argued that

fighting unemployment rather than inflation would make people happier. “She was this friendly face, nodding and smiling,” he recalls. In 2001, Wolfers met Yellen again, when she and husband Akerlof interviewed him for an academic job at Berkeley. He didn’t get that job but was offered other coveted academic positions, including at Harvard, Yale and Columbia. He settled on Stanford Business School, where he was an assistant professor between 2001 and 2004. Wolfers remains friendly with Yellen but, respectful of confidentiality, is not willing to speak about their present day interactions. “Everyone in economics knows everyone else,” he says. “I think the best thing you can do intellectually is to find opportunities to be the dumbest person in the room.”

That probably means staying on the other side of the world. Wolfers and Stevenson have signed on at the University of Sydney as visiting professors of economics and plan to spend one month a year in Australia. While Wolfers concedes Australia would be a fantastic place to raise their children, he plans to spend the rest of his career in the US “because it’s where there is most opportunity for academics. To get me back to Australia permanently would take a job in policy that I’m not qualified for.”



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