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Economics 552

Economic Organizations and Labor Markets

This course is intended for graduate students and well-qualified undergraduates interested in the economic institutions of labor markets. The course will examine the role of “internal labor markets”, unions, and other types of labor market organizations that address market failures, promote efficiency, and influence the distribution of earnings. Issues of labor market segmentation, unionization, discrimination, and structural change will also be covered. The emphasis in the course is on building an intuitive understanding of alternative labor market theories and on interpreting empirical research findings. The course will examine the interactions among economic, organizational, psychological, and influences on labor markets, and will explore the role of economic power, using both a textbook (George Borjas, *Labor Economics* (2nd Edition), and case studies, historical and comparative analyses, and other types of qualitative economic research

The course begins with a review of the standard neoclassical theories of labor markets and labor market organizations. The second part of the course examines the evolution of labor market institutions, using the United States as a case study, and compares U.S. labor market organizations with those of other industrialized countries. The third part of the course examines the relationship between economic organizations and labor market segmentation and concludes with the analysis of recent structural changes in labor markets and labor market organizations.

Course Requirements

The course will be organized as a seminar and students are expected to be prepared for class discussion. There will be mid-term and final examinations and a written assignment. The written assignment can be fulfilled (1) by analyzing a labor contract negotiation and two union “grievances” or (2) by writing a research paper (20-25 pages for graduate and BA-MA students and 15-20 pages for undergraduates). The research paper must relate to labor market organizations and may involve historical research, a small-scale survey, or empirical field research. The paper may be deal either with the United States or another country. Team research projects are acceptable with prior approval.

The written assignment counts for 25% of the course grade, the mid-term for 30%, and the final examination for 45%. For students who undertake both written assignments the final exam will count for 40% of the course grade and the written assignment will count for 35%.

Missed examinations can only be made-up with a written medical excuse and extensions on papers must be approved in advance. Regularity of class attendance and participation will count when the final course grade is on a borderline. Students are expected to adhere to the CAS Academic Code of Conduct. CAS regulations governing plagiarism and cheating on exams are strictly enforced in this course.

Office Hours: Tuesdays 3:00-4:30, Thursdays 3:30-5:00, or by appointment

Final Examination: May 4, 2-4 PM

Course Outline and Readings

I. Introduction: Competing Views of Labor Markets

1. Competitive Labor Markets

Borjas, Ch. 1, pp. 1-11

2. Market Failures and the New Institutional Labor Economics

Gregory Dow, "The New Institutional Economics and the Employment Relationship" in Bruce Kaufman (Ed.) *Government Regulation*

3. Unions, Market Power, and Efficiency

Borjas, Ch. 11, pp. 400-404

Richard Edwards, *Contested Terrain*, (New York: Basic Books Inc., 1979), Ch. 1

II. Competitive Theories of Labor Supply, Labor Demand, and Wage Determination

1. The theory of labor supply and "opportunistic" utility maximization

Borjas, Ch. 2, pp. 20-25, 35-40, 44-46, 55-57; Ch. 3, pp. 70-84

2. The theory of labor demand and labor productivity

Borjas, Ch. 4, pp. 103-114, 124-125, 131-132

3. Equilibrium wages

Borjas, Ch. 4, pp. 136-138; Ch. 5, pp. 159-166

4. Compensating wage differentials and hedonic wages

Borjas, Ch.6, pp. 201-213, 219-223

III. Human capital

1. Human capital investment and labor productivity

Borjas, Ch.7, pp. 226-238

2. Education investment and ability

Borjas, Ch. 7, pp. 238-241

3. Investment in on-the-job training

Borjas, Ch. 7, pp. 255-261

4. Human capital “earnings functions”

Borjas, Ch. 7, pp. 241-245, 261-268; Ch. 5, pp. 182-185

Case Study: Richard B. Freeman, "Functioning of the College Graduates' Labor Market, in Richard B. Freeman, *Labor Markets in Action*

IV. Workplace Economics

1. Peer Group Labor Markets and Simple Hierarchies

Oliver E. Williamson, *Markets and Hierarchies*, Ch. 3

Case Study: Peter B. Doeringer, Philip I. Moss, David G. Terkla, "Capitalism and Kinship: Do Institutions Matter in the Labor Market", *Industrial and Labor Relations Review*, Spring 1992

2. The Economics of “Personnel” Management

Edward Lazear, “Personnel Economics: Past Lessons and Future Directions”, *Journal of Labor Economics*, April 1999

Borjas, Ch. 7, pp. 249-254

3. Complex Hierarchies and Internal Labor Markets

Oliver E. Williamson, Michael Wachter, and Jeffrey Harris, “Understanding the Employment Relation: the Analysis of Idiosyncratic Exchange”, *Bell Journal of Economics*, Spring 1975

Borjas, Ch. 5, pp. 185-186, Ch. 9, pp. 330-337, Ch. 13, pp. 497-499

Case Studies:

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 3

Paul Osterman, “White Collar Internal Labor Markets” in Paul Osterman (Ed.), *Internal Labor Markets*

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 4

4. The principle-agent problem: Effort Incentives and efficiency wages

Kevin Lang, Jonathan S. Leonard, and David M. Lilien, "Labor Market Structure, Wages, and Unemployment", in Kevin Lang and Jonathan S. Leonard, *Unemployment and the Structure of Labor Markets*, (New York: Basil Blackwell, Inc. 1987)

Borjas, Ch.12, pp. 432-459, 460-461

Janet Yellen, "Efficiency Wage Models of Unemployment", *American Economic Review*, Papers and Proceedings, May 1984

Lawrence F. Katz and Lawrence H. Summers, "Industry Rents: Evidence and Implications", *Brookings Papers on Economic Activity Microeconomics*, 1989, pp. 209-247

5. Power, authority, and control in internal labor markets

Richard Edwards, *Contested Terrain*, (New York: Basic Books Inc., 1979), Ch. 7, pp. 111-122; Ch. 8, pp. 130-152

6. Unions and collective bargaining

Borjas, Ch. 11, pp. 388-400, 411-417

Bruce E. Kaufman and Julie L. Hotchkiss, *The Economics of Labor Markets*, pp. 597-613

Borjas, Ch. 11, pp. 417-423, pp. 424-428

Case Study: Hometown Firefighters Fact-finding Case (Handout)

V. Efficiency and Power in the Organizational Structure of the U.S. Labor Market

1. Flexible Labor Markets After the Industrial Revolution

Price V. Fishback, "Operations of 'Unfettered' Labor Markets", *Journal of Economic Literature*, June 1998

2. Occupational Labor Markets

Richard Edwards, *Contested Terrain*, Ch. 2

Robert M. Jackson, *The Formation of Craft Labor Markets*, Ch. 1.

3. The Development of Complex Hierarchies and Efficiency Wages

Thomas Kochan, Harry Katz, and Robert McKersie, *The Transformation American Industrial Relations*, Ch. 2

Sanford Jacoby, "The Development of Internal Labor Markets in American Manufacturing Firms", in Paul Osterman (Ed.), *Internal Labor Markets*

Case Study: Daniel M. G. Raff, "Ford Welfare Capitalism In Its Economic Context" in Sanford M. Jacoby (Ed.), *Masters To Managers*, (New York: Columbia University Press, 1991).

Victor Goldberg, "Bridges Over Contested Terrain", *Journal of Economic Behavior and Organization*, 1 1980

VI. International Comparisons of Labor Market Organization

1. Japan

Masahiko Aoki, "Toward and Economic Model of the Japanese Firm", *Journal of Economic Literature*, March 1990, pp. 1-14, 18-24

James R. Lincoln and Arne L. Kalleberg, "Commitment, Quits, and Work Organization in Japanese and U.S. Plants", *Industrial and Labor Relations Review*, vol. 50, No. 1 (October 1996) pp. 39- 59

2. Western Europe

Marc Maurice, Francois Sellier, and Jean-Jacques Silvestre, "The Search for a Societal Effect in the Production of Company Hierarchy: A Comparison of France and Germany", in Paul Osterman (Ed.), *Internal Labor Markets*

Rainier Winkelmann, "Employment Prospects and Skill Acquisition of Apprenticeship-Trained Workers in Germany," *Industrial And Labor Relations Review*, July 1996

Lisa M. Lynch, "Payoffs To Alternative Training Strategies At Work", in Richard B. Freeman (ed.), *Working Under Different Rules*, pp. 63-95

VII. Efficiency Alternatives to Internal Labor Markets

1. Unions, Worker Voice, Fairness, and Efficiency

Richard B. Freeman and Joel Rodgers, *What Workers Want*, Chapter 1

Borjas, Ch. 11, pp. 423-425

Richard Freeman and James Medoff, *What Do Unions Do?* Ch. 11

George Akerlof and Janet Yellen, "Fairness and Unemployment", *American Economic Review*, May 1988

Case Study: Labor Arbitration Cases (Handout)

2. Job satisfaction, motivation, and reciprocity

Peter B. Doeringer, "The Socioeconomics of Labor Productivity" in Richard M. Coughlin, (Ed.), *Morality, Rationality, and Efficiency*

George Akerlof, "Gift Exchange and Efficiency Wages: Four Views", *American Economic Review*, May 1984

Ernst Fehr and Simon Gächter, "Fairness and Retaliation: The Economics of Reciprocity", *Economic Perspectives*, Summer 2000.

Case Study: Peter B. Doeringer, "Internal Labor Markets and Paternalism in Rural Areas" in Paul Osterman (Ed.), Internal Labor Markets

VIII. Segmenting Forces in Labor Markets

1. Discrimination

Borjas, Ch. 10, pp. 342-366, 374-381

Francine D., Blau and Lawrence M. Kahn, "Gender Differences in Pay", *Journal of Economic Perspectives*, Vol. 14 no. 4 (Fall 2000), pp. 75-100

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 7

Case Studies

Paul Osterman, "Sex Discrimination in Professional Employment: A Case Study", *Industrial and Labor Relations Review*, July 1979

Marlene Kim, "Inertia and Discrimination in the California State Civil Service", *Industrial Relations*, January 1999

2. Dual Labor Markets and Unemployment

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 8

Borjas, Ch. 12, pp. 459-460, 472-477

William Dickens and Kevin Lang, "Labor Market Segmentation Theory: Reconsidering the Evidence", in William Darity (Ed.) *Labor Economics: Problems In Analyzing Labor Markets*

IX. Transformations in Labor Markets and Organizational Structures

1. Market and Organizational Regimes

David M. Gordon, "Econometric Tests For the Transition Between Productivity Regimes", *Industrial Relations*, vol. 36, no. 2, April 1997

2. Causes and consequences of Structural Change

Borjas, Ch. 8, pp. 278-293

George Borjas, Richard B. Freeman, and Larry Katz, "How Do Immigrants and Trade Affect Labor Market Outcomes?", *Brookings Papers on Economic Activity*, 1:1997

Daniel J.B. Mitchell, "A Decade of Concession Bargaining", in Clark Kerr and Paul Staudohar (Eds.), *Labor Economics and Industrial Relations*

Louis S. Jacobson, Robert J. LaLonde, and Daniel G. Sullivan, "Earnings Losses of Displaced Workers", *American Economic Review*, September 1993

Annette Bernhardt and Dave E. Marcotte, "Is 'Standard Employment' Still What It Used To Be?", in Francoise Carre, et al. (Eds.), *Nonstandard Work*, Industrial Relations Research Association, 2000

3. Alternative Organizational Systems: The High Performance Workplace

Paul Osterman, "Work Reorganizations In An Era of Restructuring: Trends In Diffusion and Effects on Employee Welfare", *Industrial and Labor Relations Review*, January 2000

Casey Ichniowski and Kathryn Shaw, "Beyond Incentive Pay: Estimates of the Value of Complementary Human Resource Management Practices", *Journal of Economic Perspectives*, Vol. 17, No. 1, Winter 2003, pp. 155-180.

Case Study: Ann Bartel, Richard Freeman, Casey Ichniowski, Morris M. Kleiner, "Can a Work Organization Have An Attitude Problem?" NBER Working Paper 9987, September 2003

4. Alternative Organizational Systems: Flexible Specialization

Michael J. Piore and Charles Sabel, *The Second Industrial Divide*, Ch. 10

Case Study: Peter B. Doeringer and Audrey Watson, "Restructuring Apparel Production Channels: Economic Institutions and Economic Performance" in David Mowery (Ed.), *U. S. Industry In 2000*, 1999

X. Labor Market Institutions and Public Policy

1. Human Capital Policy

Borjas, Ch. 7 pp. 268-271

David H. Greenberg, Charles Michalopoulos, Philip K. Robins, "A Meta-Analysis of Government-Sponsored Training Programs", *Industrial and Labor Relations Review*, vol. 57, No. 1, (October 2003), pp. 31-37, 44-51.

2. Displaced and Older Workers

Commonwealth of Massachusetts Blue Ribbon Commission on Older Workers, *Older Workers: An Essential Resource For Massachusetts*, April 2000, pp. 11-29 (Handout)

3. Anti-discrimination Policy

Borjas, Ch. 10 pp. 381-382

Bruce Kaufman and Julie Hotchkiss, *The Economics of Labor Markets*, "Government Programs To Combat Discrimination", pp. 507-519

4. Industrial Policy

Jeremy Bulow and Lawrence Summers, "A Theory of Dual Labor Markets with Application to Industrial Policy, Discrimination, and Keynesian Unemployment", *Journal of Labor Economics*, Vol. 4 No. 3 1986