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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 emphasis in the course is on understanding how labor market institutions – workplace “personnel” practices, unions, internal labor markets, social and psychological workforce considerations, and public policy – affect competitive labor markets and how they can help to extend the standard microeconomics of labor markets. The course will begin with a review of supply, demand, and human capital theories of labor markets followed by an introduction to contemporary research on “workplace” economics and workplace efficiency incentives. The second part of the course examines the historical development of U.S. labor market institutions and compares U.S. institutions with those of other developed countries. The third part examines the social psychology of efficiency incentives -- fairness, “gifts”, and economic identity – and also the organizational factors that segment workplaces and labor markets. The concluding section examines how recent transformations in labor markets have affected market institutions and their implications for labor market policy. Qualitative and case study evidence, as well as quantitative data, will be used throughout the course to illustrate how markets and institutions interact to correct market failures, improve labor productivity, and shape the distribution of earnings.

The textbook for the course is George Borjas, *Labor Economics* (5th Edition). All supplemental readings and case study materials will be available on the Blackboard site for the course.

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 choice of written assignments. The written assignment can be fulfilled by (1) analyzing a union contract negotiation and a union “grievance” or (2) writing a research paper (15-20 pages) on a topic related to labor market institutions and organizations. The paper may be deal either with the United States or another country. Team research projects are acceptable with prior approval. The written assignment option counts for 25% of the course grade, the mid-term for 30%, and the final examination for 45%.

Missed quizzes and examinations can only be made-up for acceptable reasons (serious illness or family emergency). Requests for an excused absence from exams must be submitted in writing in advance of the absence, and excuses must be documented. The University’s academic conduct regulations governing plagiarism and cheating on exams are strictly enforced in this course. (See <http://www.bu.edu/academics/files/2011/08/AcademicConductCode.pdf>)

Office Hours

Doeringer: Monday, 4:30 – 6:00, Wednesday 4:00 - 5:30, or by appointment.

TA: Olesya Baker (obaker@bu.edu): Monday 11:00 – 12:00, Room B-18, 264 Bay State Rd., or by appointment

Mid-term Examination: March 5, 2011 (no exceptions)

Final Exam: May 11, 2012, 9-11 (no exceptions)

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

Paul Osterman, “The Contours of Institutional Labour Economics: Notes Towards a Revised Discipline, Socio-Economic Review, Vol. 7 No. 4 (2009), pp. 695-705

3. Unions, Market Power, and Efficiency

Borjas, Ch. 11, pp. 418-423

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. 21-45, 50-56, pp. 60-71; Ch. 9, pp. 406-412

2. The theory of labor demand and marginal productivity

Borjas, Ch. 3, pp. 88-109, 124-128, 113-114

3. Equilibrium wages

Borjas, Ch. 4, pp. 147-152; Ch. 5, pp. 159-166

4. Compensating wage differentials and hedonic wages

Borjas, Ch.5, pp. 205-216, 222-226

III. Human capital

1. Human capital investment and labor productivity

Borjas, Ch.6, pp. 236-248

2. Education investment and ability

Borjas, Ch. 6, pp. 248-250

3. Investment in on-the-job training

Borjas, Ch. 6, pp. 268-277

4. Human capital “earnings functions”

Borjas, Ch.6, pp. 250-251, 277-278; Ch. 4, pp. 188-190

Case Study-Occupational Markets: Richard B. Freeman, "Functioning of the College Graduates' Labor Market, in Richard B. Freeman, *Labor Markets in Action*, pp. 21-28

5. Education as a Signal

Borjas, Ch.6, pp. 262-267

IV. Introduction to Workplace Economics

1. Peer Group Labor Markets and Simple Hierarchies

Oliver E. Williamson, *Markets and Hierarchies*, Ch. 3, pp. 41-55

Case Study-Kinship Peer Groups: 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, pp. 48-57

2. The Economics of “Personnel” Management

Edward Lazear, “Personnel Economics: Past Lessons and Future Directions”, *Journal of Labor Economics*, April 1999, pp. 199-216

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, pp. 250-275

Borjas, Ch. 8, pp. 349-358, Ch. 12, pp. 528-529

Case Studies – Internal Labor Allocation: Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 3, pp.41-49

Flexible Allocation: Paul Osterman, "White Collar Internal Labor Markets" in Paul Osterman (Ed.), *Internal Labor Markets*, pp. 163-170

Administrative Wages: Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 4, pp.64-85

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

Borjas, Ch.11, pp. 463-492

Lawrence F. Katz and Lawrence H. Summers, "Industry Rents: Evidence and Implications", *Brookings Papers on Economic Activity Microeconomics*, 1989, pp. 216-245

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

Sanford Jacoby, *Employing Bureaucracy*, Ch. 1, pp. 10-23, 26

6. Unions and collective bargaining

Borjas, Ch. 10, pp. 418-429, 443-449

Bruce E. Kaufman and Julie L. Hotchkiss, *The Economics of Labor Markets*, pp. 596-613

Case Study-Wage Bargaining: 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, pp. 722-749

William E. Forbath, *Law and the Shaping of the American Labor Movement*, Ch. 3, pp. 59-79

2. Craft Labor Markets

Robert M. Jackson, *The Formation of Craft Labor Markets*, Ch. 1, pp. 1-11

Daniel Jacoby, "The Transformation of Industrial Apprenticeship in the United States", *Journal of Economic History*, Vol. 51, No. 4 (December 1991), pp. 887-903, 907-908

3. The Development of Complex Hierarchies and Efficiency Wages

Sanford Jacoby, "The Development of Internal Labor Markets in American Manufacturing Firms", in Paul Osterman (Ed.), *Internal Labor Markets*, pp. 23-58

Thomas Kochan, Harry Katz, and Robert McKersie, *The Transformation American Industrial Relations*, Ch. 2, pp. 23-58

Victor Goldberg, "Bridges Over Contested Terrain", *Journal of Economic Behavior and Organization*, Vol. 1, No. 3, 1980, pp. 249-272

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. 7-14, 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, et al., "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*, pp. 231-258

Rainier Winkelmann, "Employment Prospects and Skill Acquisition of Apprenticeship-Trained Workers in Germany," *Industrial and Labor Relations Review*, July 1996, pp. 658-671

Lisa M. Lynch, "Payoffs To Alternative Training Strategies At Work", in Richard B. Freeman (ed.), *Working Under Different Rules*, pp. 63-87

VII. Organizational Alternatives to Internal Labor Markets and Efficiency Wages

1. Unions, Worker Voice, Fairness, and Efficiency

Richard B. Freeman and Joel Rodgers, *What Workers Want*, Chapter 1, pp. 1-14

Borjas, Ch. 10, pp. 451-454

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

George Akerlof and Janet Yellen, "Fairness and Unemployment", *American Economic Review*, May 1988, pp. 44-48

Case Study: Fairness in Explicit Labor Contracts: Labor Arbitration Cases (Handout)

2. Job satisfaction, motivation, and reciprocity

Ann Bartel, Richard Freeman, Casey Ichniowski, Morris M. Kleiner, "Can a Work Organization Have an Attitude Problem?" *NBER Working Paper 9987*, September 2003, pp. 1-13, 21-27, 30

George Akerlof, "Gift Exchange and Efficiency Wages: Four Views", *American Economic Review*, May 1984, pp. 79-83

Ernst Fehr and Simon Gächter, "Fairness and Retaliation: The Economics of Reciprocity", *Economic Perspectives*, Summer 2000, pp. 159-172

Case Study-Reciprocity: Brian Uzzi, "The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: the Network Effect", American Sociological Review, Vol. 61, No. 4 (August 1996), pp. 674-685, (686-693 optional), 693-695

3. Using and Redefining Identity

George Akerlof and Rachel Kranton, "Identity and the Economics of Organizations", *Journal of Economic Perspectives*, Vol. 19, No. 1, Winter 2005, pp. 9-29

VIII. Segmenting Forces in Labor Markets

1. Discrimination

Borjas, Ch. 9, pp. 369-382, 385-390, 399-406, (review pp.406-412)

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

Rachel Croson and Uri Gneezy, "Gender Differences in Preferences", *Journal of Economic Literature*, Vol. XLVII, No. 2, June 2009, pp. 448-454, 467-468

Trond Petersen et al., "The Male Marital Wage Premium: Sorting vs. Differential Pay", *Industrial and Labor Relations Review*, Vol. 764, No. 2, January 2011, pp. 283-289, 300-302

Claudia Goldin, *Understanding the Gender Gap*, Ch. 6, pp. 159-177

Case Study-Internal Market Segregation: Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 7, pp. 137-147

Paul Osterman, "Sex Discrimination in Professional Employment: A Case Study", *Industrial and Labor Relations Review*, July 1979, pp. 451-464

2. Monopsony: Old and New

Borjas, Ch. 4, pp. 190-196

George L. Priest, "Timing Disturbances in Labor Market Contracting: Roth's Findings and the Effects of Labor Market Monopsony", *Journal of Labor Economics*, Vol. 28, No. 2, November 2010, pp. 447-449, 451-466

3. Dual Labor Markets and Unemployment

Borjas, Ch. 11, pp. 490-491

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 8, pp. 163-171

William Dickens and Kevin Lang, "Labor Market Segmentation Theory: Reconsidering the Evidence", *NBER Working Paper No. 4087*, June 1992, pp. 7-18, 33-51 (top), 60-64

Kenneth Hudson, "The New Labor Market Segmentation: Labor Market Dualism in the New Economy", *Social Science Research*, Vol. 36, 2007, pp. 287-307

IX. Transformations in Labor Markets and Organizational Structures

1. Causes and Consequences of Structural Change

Borjas, Ch. 7, pp. 293-305

Daniel J.B. Mitchell, "A Decade of Concession Bargaining", in Clark Kerr and Paul Staudohar (Eds.), *Labor Economics and Industrial Relations*, pp. 435-459

Louis S. Jacobson, Robert J. LaLonde, and Daniel G. Sullivan, "Earnings Losses of Displaced Workers", *American Economic Review*, September 1993, pp. 685-691, 696-706

David Autor and David Dorn, "This Job is "Getting Old": Measuring Changes in Job Opportunities Using Occupational Age Structure", *American Economic Review*, Vol. 99, No. 2, May 2009, pp. 45-50

Craig Copeland, "Employee Tenure Trend Lines, 1983-2010", *EBRI Notes*, Vo. 31, No. 12, December 2010. (Read for trends in data)

2. 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, pp. 179-184, 186-195

3. Alternative Organizational Systems: Flexible Specialization

Michael J. Piore and Charles Sabel, *The Second Industrial Divide*, Ch. 10, pp. 258-265

Case Study-Market Re-design: Peter B. Doeringer, "'First-Mover' and 'Late-Developer' Advantages: Institutional Market Design in the New York and Los Angeles Garment Districts, 1900-1960", mimeo, October 2011, pp. 1-4, 15-25

Peter B. Doeringer, "Fashion Clusters and Market Re-design: Contracting Networks, Performance Incentives, and Garment District Advantage in New York and Los Angeles" mimeo, January 2012, pp. 3-7, 27-46

X. Labor Market Institutions and Public Policy

1. Human Capital Policy

Borjas, Ch. 6, pp. 278-211

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. 37-40, 43-48, 50-51

2. Anti-discrimination Policy

Borjas, Ch. 49, pp. 390-393, 406

3. Market Regulation and Industrial Policy?