

Grinnell College
Economics 215
Spring 2004

Bill Ferguson
Carnegie 205
X 3132
ferguso1@grinnell.edu

Office Hours: M,W 1:30 – 3:00; Tues. 10 – 12:00

LABOR ECONOMICS

Why is it that when I want to hire a pair of hands, I get a human being instead?

-- Henry Ford

Labor is prior to, and independent of, capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital and deserves much the higher consideration.

-- President Abraham Lincoln, Annual Message to Congress, Dec. 3, 1861

. . . highly paid labour is generally efficient and therefore not dear labour; a fact which though it is more full of hope for the future than any other that is known to us, will be found to exercise a very complicating influence on the theory of distribution.

-- Alfred Marshall

The only thing worse than being exploited by a capitalist is not being exploited by one.

-- Joan Robinson

Who built the seven towers of Thebes?

The books are filled with names of kings.

Was it kings who hauled the craggy blocks of stone?

In the evening when the Chinese wall was finished

Where did the masons go?

-- Bertolt Brecht

Labor markets are unique because the commodity traded – the ability to perform work – cannot be separated from human beings. Unlike any input into production, the productive performance of labor – the intensity and quality of effort exerted on the job – depends in part on human attitudes, specifically the attitudes of workers and their employers concerning the returns to labor and the nature of the work to be performed. Labor markets are therefore inherently political institutions in the sense that coalitions of participants can affect important outcomes. These interactions have economic significance because labor's performance affects productivity, which in turn affects the costs and quality of production.

This course will explore the intersection of economic and political forces within labor markets along with applications to contemporary problems including income distribution, racial and gender discrimination, worker displacement and labor participation in management.

READINGS

At Bookstore:

Albert O. Hirschman, *Exit, Voice and Loyalty*, Harvard University Press, 1970.

Bruce E. Kaufman and Julie L. Hotchkiss, *The Economics of Labor Markets*, Sixth Edition, Thomson South-Western, 2003.

Other Readings, on e-reserve, selections from:

Bergman, Barbara R., *The Economic Emergence of Women*, Basic Books, 1986;

Bewley, Truman, *Why Wages Don't Fall During a Recession*, Harvard University Press, 1999.

Blau, Francine and Marianne A. Ferber and Anne E. Winkler, *The Economics of Women, Men and Work*, Prentice Hall, 1998.

Bluestone, Barry and Irving Bluestone, *Negotiating the Future*, Basic Books, 1992.

Doeringer, Peter and Michael Piore, *Internal Labor Markets and Manpower Analysis*, M.E. Sharpe, 1985 (Originally DC Heath, 1971).

Freeman, Richard B. and James L. Medoff, *What do Unions Do?*, Basic Books, 1984.

Lewis, Ronald L., *Black Coal Miners in America: Race, Class and Community Conflict, 1780-1980*, University Press of Kentucky, 1987.

Levine, David, *Reinventing the Workplace*, Washington D.C.: Brookings Institution, 1995.

Osterman, Paul, *Internal Labor Markets*, MIT Press, 1984.

I reserve the right to make changes and to announce additional readings as the course proceeds.

ASSIGNMENTS/GRADING

There will be one midterm exam (early in the semester) and a comprehensive final exam. There will be several short (one-page) papers, two medium papers (or take-home exams), five or six problem sets, and several oral presentations. Approximate grade allocation is as follows:

Final 28%	Mid-Term 14%	Papers/Take Homes 28%
Problem Sets, Class Participation & Attendance 20%		Oral Presentations 10%

COURSE SCHEDULE

I. Introduction to Labor Market Theory

Week 1: Data on U.S. Labor and Overview of Labor Markets, Schools of Labor Economics

1. Labor Markets, Outcomes, Data
Data Handout (Keep These!)
Kaufman and Hotchkiss, pp. 1-15.
2. Labor Market Process, Schools of Labor Economics
Kaufman & Hotchkiss, pp. 15-40.

Weeks 2-3+: The Neoclassical Labor Market: Demand for and Supply of Labor, Human Capital and Wage Determination.

1. Labor Supply
 - a. Hours Worked: The "labor/leisure" tradeoff and the labor supply curve: Kaufman & Hotchkiss, pp. 43-46 (46-54 optional) 54-67.
 - b. Labor Force Participation: Kaufman & Hotchkiss, pp. 78-84 (85-93 optional) 115-120; 124-

134; 138 – 148.

Problem Set #1

2. Labor Demand
 - a. Short Run: Kaufman & Hotchkiss, pp. 171- 204.
 - b. Long Run: Kaufman & Hotchkiss, pp. 214-216; 221-223 (223-232 optional) 232-238.
3. Wage Determination
 - a. Firm and Market: Kaufman & Hotchkiss, pp. 265-279, 282-291
 - b. Human Capital: Kaufman pp. 329-343
 - c. Compensating Wage Differentials: Kaufman pp. 393-402.
 - d. Income Distribution: Kaufman pp. 343-354.

Problem Set #2

Week 4+: Wages and Effort: Efficiency-Wage and Fair Wage Models of the Labor Market

1. Kaufman & Hotchkiss, pp. 709-711
2. Handout on Efficiency-Wage and Effort models.
3. Peterson & Estenson on Efficiency-Wage Models.
4. George Akerlof -- "Labor Contracts as Partial Gift Exchange."
5. Truman Bewley, Chapter 4, "Morale."

Short Paper #1; Problem Set #3

MIDTERM EXAM Friday, Feb. 20

II. Labor Markets as Economic/Political Institutions

Week 5-6: Exit and Voice: Where Economics and Politics intersect.

1. Hirschman, Chapters 1-3, 7, Appendix A&B.

Week 6: Contested Exchange, Productivity, and the Potential for Cooperation.

1. Samuel Bowles, "What Markets Can and Cannot Do." *Challenge*, Jul./Aug. 1991.
2. Bluestone and Bluestone, Chapter 1.

Problem Set #4

Weeks 7-8: Unions and Bargaining Power

1. Freeman and Medoff, Chapters 1-3.
2. Kaufman & Hotchkiss, Chapters 11 and 12
3. Lewis, Chapters 3 and 4, "The Social Equality Wedge in Alabama, 1880-1908," and "Resurgence of the UMWA in Alabama, 1920-1940."
4. Bluestone and Bluestone Chapters 2-3.

Take Home Exam

Weeks 8-10: Employment in Institutions: Internal Labor Markets and Labor Market Segmentation.

1. **Internal Labor Markets:**
Kaufman & Hotchkiss, pp. 298-302.
Osterman, Chapter 6, "White Collar Internal Labor Markets;"
Doeringer and Piore: Introduction, Chapters 1,2; Ch. 3-4 (selected pages, on reserve).
2. **Labor Market Segmentation:**
Kaufman & Hotchkiss, pp. 302-309.
Doeringer and Piore, selected pages (on reserve).
Handout on industry wage differentials.

Short Paper #2; Problem Set #5

III. Contemporary Problems in U.S. Labor Markets

Weeks 10-12+: Race and Gender in labor markets.

1. **Theories of Discrimination:** Kaufman & Hotchkiss: Chapter 9 to p. 473.
2. **Rising Labor Force Participation of Women and its Implications**
Kaufman & Hotchkiss: pp. 139-153; 156-161.
Bergman, Ch. 1-3 (on reserve).
3. **Earnings Differences, Discrimination and Occupational Segregation**
Kaufman & Hotchkiss: pp. 423-433; 442-444; 474-494.
Bergman, Chapters 4-6, selected pages (on reserve)
Blau, Ferber and Winkler, Chapters 5, 7, 8 (1st half)
Breslow on the racial divide (in course packet)
4. **Policy and the Debate over Affirmative Action**
Kaufman & Hotchkiss, pp. 494-509.
Bergman, Chapter 7
Other readings to be announced

Paper Due

Weeks 13-14: Structural Changes in the Contemporary US Labor Market, and Policy Concerning Worker Participation in Managing Firms

1. Kaufman & Hotchkiss, pp. 209-216, 238-247, 252-257.
2. Blau, Ferber and Winkler, Chapter 8 (2nd half)
3. Levine, Chapters 2,7, 8

FINAL EXAM: Wednesday May 12, 9:00 A.M. Make your travel plans accordingly!!