

George Mason University  
Schar School of Policy and Government

**Labor Markets and Policies (PUBP 732)**  
**Spring 2017**

DRAFT SYLLABUS AND READINGS

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*“A growing economy that creates good, middle-class jobs – that must be the North Star that guides our efforts. Every day, we should ask ourselves three questions as a nation: How do we attract more jobs to our shores? How do we equip our people with the skills they need to get those jobs? And how do we make sure that hard work leads to a decent living?”* (B. Obama 2013)

This course develops tools for analyzing policies affecting employment, wages, working conditions, and unemployment. A partial list of issues and policies includes:

- Do government regulations, private equity buyouts, privatizations, FDI, or other acquisitions reduce employment and/or wages?
- How effective are payroll tax cuts, hiring credits, and other employment policies at increasing hiring?
- Do minimum wages, income taxes, mandated benefits (health insurance, parental leave), and welfare programs (like TANF) reduce employment?
- Do overtime rules (or other policies affecting forms of “worksharing”) and layoff restrictions reduce unemployment?
- Why has inequality risen so much in the US and other economies?
- Do employers discriminate against women, African-Americans, or other groups, and has the situation improved or worsened in recent years?
- How much are workers hurt by globalization (trade, outsourcing, FDI)?
- How do people decide to emigrate, and is immigration bad for native workers?
- How has technological change affected jobs and wages of skilled and unskilled workers?
- Do training programs (such as WIA) and wage subsidies (proposed recently) lower unemployment, and does unemployment insurance (UI) raise it?
- How do people make choices about education and how does education affect earnings?
- Does job safety regulation (OSHA) help workers?
- What factors encourage or inhibit self-employment or entrepreneurship?
- Why has unionization declined, and how much do unions raise wages?
- Are public sector employees “over”- or “under”-paid? What about corporate executives?
- Is there a “poverty trap” and if so what can be done about it?

- What determines choices about marriage, divorce, child-bearing, abortion, and the division of labor within families?

The **learning outcomes of this course** are a core set of tools for thinking about these questions, many of which are central to current policy debates and upcoming elections. The courses will allow student interests to guide our choices of specific topics, partly through student presentations and term papers.

### **Requirements and Grading Options**

The course organization is designed to meet the needs of students with different interests and objectives. Some students may be interested in a broad understanding of labor market issues and policies with no particular specialty or emphasis during the course. Others may have a clear idea of an area where they would like to specialize and develop a deep understanding by carrying out some research of their own. Still others may prefer some combination of these: both some broad coverage and some specialization.

In order to address these diverse possibilities, the course offers a choice of requirements and grading:

1. class participation 10%, homework 20%, midterm exam 30%, final exam 40%
2. class participation 10%, homework 20%, term paper = 70%
3. class participation 10%, homework 20%, final exam = 40%, shorter term paper = 30%
4. any of these choices could be combined with a simultaneous directed reading with the instructor to earn additional credits (associated with a longer term paper)

The term paper may take one of three forms: (1) a summary of selected papers addressing a key question in labor policies (such as those on the first paper of this syllabus); (2) a replication of an empirical study of a significant labor market and policy question; (3), an original research paper (I will provide more guidance on the paper design to interested students). These papers may also be presented to the class during the last 1 or 2 meetings of the semester. The term paper topic must be agreed by March 10, and the paper itself is due May 10 (both via email to earle@gmu.edu). The final exam will be held either during the last day of class or on the day set by the registrar.

There will be several required homework sets during the semester; the lowest grade will be dropped in the calculation of the course grade. If there is sufficient interest, a “bonus” homework may also be available later in the semester.

The grading option must be decided by February 20 (by email together with the term paper topic, if chosen). I am happy to provide advice and suggestions at all stages.

Students should be familiar with basic microeconomic theory (e.g., PUBP 720) and statistics (e.g., PUPB 704 or 804); please see or email me if you have any questions.

### **Readings**

The main text is *Labor Economics*, by George Borjas (abbreviated as GB below), published by McGraw Hill. I have ordered the 7th edition loose-leaf (for reduced cost) packaged with “Connect” through the GMU Bookstore. We will use “Connect” for on-line homework, so you need to buy it. Sign up through <http://connect.mheducation.com/class/j-earle-labor-markets-and-policies-2017>. You may use an earlier edition of the Borjas text, if you wish, although there is

updated material in this new edition. If you want to search for a cheaper alternative here's the book's ISBN: 9781259541131.

Finishing the assigned reading in the textbook prior to the class meeting will facilitate questions and discussion about the material.

## **Preliminary Schedule of Topics**

This list is too long and the readings are too many for us to complete within one semester. Sections 1-4 are core material, and we will certainly cover them. The other sections are provided here to show possibilities where we may focus afterward. Similarly, the extensive readings are provided to give some initial suggestions of ways to dig deeper into particular topics. In sections we cover, the textbook chapters can be considered essential ("required"); we will decide later on the others.

### **1. Key Concepts and Measurement in Labor Markets**

GB, Chapter 1 (including appendix).

Bureau of Labor Statistics, *Employment Situation News Release*. Available monthly (usually on the first Friday of the following month): <http://www.bls.gov/news.release/empsit.nr0.htm>

Perkins, David W., "Declining Dynamism in the U.S. Labor Market." CRS Insight, June 2016.

Furman, Jason, "Eight Years of Labor Market Progress and the Employment Situation in December." <https://obamawhitehouse.archives.gov/blog/2017/01/06/eight-years-labor-market-progress-and-employment-situation-december>

- Course overview
- Defining and measuring labor force status: employment, unemployment, nonparticipation
- Types of data
- Basic supply-demand analysis

### **2. Labor Supply and Policies Affecting Work Incentives (and Family Economics)**

GB, Chapter 2.

Diamond, Peter, and Emmanuel Saez, "The Case for a Progressive Tax: From Basic Research to Policy Recommendations." *Journal of Economic Perspectives*, Vol. 25(4), 165–190, Fall 2011.

Ben-Shalom, Yonatan, Robert Moffitt, and John Karl Scholz, "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States." In the *Oxford Handbook of the Economics of Poverty*, 2012. Especially: Section 3 on work incentive effects.

<http://www.ssc.wisc.edu/~scholz/Research/Effectiveness.pdf>

Lundberg, Shelly, and Robert A. Pollak, "The American Family and Family Economics." *Journal of Economic Perspectives*, 21(2): 3–26, Spring 2007.

"Disability Insurance: Not Working." *Economist*, January 24, 2015.

Council of Economic Advisers, "The Long-Term Decline in Prime-Age Labor Force Participation." Issue Brief, June 2016.

Blundell, Richard, "How responsive is the labor market to tax policy? IZA World of Labor, 2014.

Crandall-Hollick, Margot L., "The Earned Income Tax Credit (EITC): An Economic Analysis." Congressional Research Service Report, 2016.

- Income taxes
- Welfare programs (e.g., TANF)
- Social Security and retirement incentives
- Disability Insurance and Workers Compensation programs
- Child labor
- marriage and divorce (laws on unilateral divorce, same-sex unions)
- fertility decisions
- child labor
- division of labor within the household
- abortion and crime

### **3. Labor Demand and Public Policies Affecting Labor through Derived Demand**

GB, Chapter 3.

Hamermesh, Daniel, “Do labor costs affect companies’ demand for labor?” IZA World of Labor, 2014.

Neumark, David, “Employment effects of minimum wages.” IZA World of Labor, 2014.

Haltiwanger, John H., Ronald Jarmin, and Javier Miranda, “Who Creates Jobs? Small vs. Large vs. Young.” *Review of Economics and Statistics*, 2012.

Charles, Kerwin Kofi, Erik Hurst, and Matthew J. Notowidigdo, “The Masking of the Decline in Manufacturing Employment by the Housing Bubble.” *Journal of Economic Perspectives*, Vol. 30(2), 179-200, 2016.

Brown, J. David, and John S. Earle, “Finance and Growth at the Firm-Level: Evidence from SBA Loans.” Forthcoming in *Journal of Finance*.

Davis, Steven J., John H. Haltiwanger, Kyle Handley, Ronald Jarmin, Joshua Lerner, and Javier Miranda, “Private Equity, Jobs, and Productivity.” *American Economic Review* Vol. 104(12), 3956–3990, 2014.

Earle, John S., Almos Telegdy, and Gabor Antal, “Foreign Ownership and Wages: Evidence from Firm-Level and Linked Employer-Employee Data in Hungary, 1986-2008.” Forthcoming in *Industrial and Labor Relations Review*.

- Minimum wage
- Employment protection legislation (EPL) – firing costs
- Small business and start-up loans
- Globalization – import competition, exports, FDI, labor standards
- Hours restrictions, work-sharing
- Technology change
- Private equity and other acquisitions
- Public sector (state ownership)

### **4. Labor Market Equilibrium**

GB, Chapter 4.

Neumark, David, “Spurring Job Creation in Response to Severe Recessions: Reconsidering Hiring Credits.” *Journal of Policy Analysis and Management*, Vol. 32(1), 142-171, 2013.

Council of Economic Advisers, “Labor Market Monopsony: Trends, Consequences, and Policy Responses.” October 2016.

Peri, Giovanni, “Do immigrant workers depress the wages of native workers?” IZA World of Labor, May 2014.

Dustmann, Christian, Uta Schönberg, and Jan Stuhler, “The Impact of Immigration: Why Do Studies Reach Such Different Results?” *Journal of Economic Perspectives*, Volume 30(4), 31–56, 2016.

- Payroll tax
- Hiring credits and wage subsidies
- Immigration effects on native workers’ wages and employment

## **5. Choice of Employment: Work Conditions, Human Capital, and Mobility**

GB, Chapter 5, 6, 8.

Gary Becker, *Human Capital*, second ed., 1975, Chapter 2, 15-44.

Heckman, James J. et al., “The Effects of Government Policy on Human Capital Investment and Wage Inequality.” *Chicago Policy Review*, Vol. 1(2), 1-40, Spring 1997.

Rosenzweig, Mark R., “Microeconomic Approaches to Development: Schooling, Learning, and Growth.” *Journal of Economic Perspectives*, Vol. 24(3), 81-96, Summer 2010.

Blau, Francine D., and Lawrence M. Kahn, “Immigration and the Distribution of Incomes.” NBER Working Paper No. 18515, November 2012.

- Job safety
- Mandated benefits
- Education
- Early-childhood interventions
- Worker training and retraining
- Active labor market policies (ALMPs)
- Nature vs. nurture
- Immigration
- Housing and regional mobility
- Job lock and benefits policies (health insurance, pensions)

## **6. Discrimination in the Labor Market**

GB, Chapter 9

Blau, Francine, and Lawrence Kahn, “Gender Differences in Pay.” *Journal of Economic Perspectives*, Vol. 14 (Fall), 75-99, Fall 2000.

Fryer Jr., Roland G., and Glenn C. Loury, “Affirmative Action and Its Mythology.” *Journal of Economic Perspectives*, 19(3): 147–162, Summer 2005.

Council of Economic Advisers, “The State of the Gender Pay Gap.” Issue Brief, June 2016.

- Discrimination and equal opportunity
- Affirmative action

## **7. Inequality, Wealth, and Poverty**

GB, Chapter 7.

David Autor, Lawrence Katz, and Melissa Kearney, “The Polarization of the U.S. Labor Market.” *American Economic Review*, Vol. 96(2), 189-194, May 2006.

Donovan, Sarah A., Marc Labonte, and Joseph Dalaker, “The U.S. Income Distribution: Trends and Issues.” Congressional Research Service Report

Robert Z. Lawrence, “Recent Declines in Labor’s Share in U.S. Income: A Preliminary Neo-Classical Account.” NBER Working Paper 21296 (<http://www.nber.org/papers/w21296>), 2015.

Steven Durlauf, “Review of *Capital in the 21<sup>st</sup> Century*, by Thomas Piketty.” *Journal of Political Economy*, 2015.

- Wage distribution
- Skill-biased technical change
- Causes of poverty and persistence

## **8. Unions, Incentives, Organizations, and Institutions**

GB, Chapter 10 and 11.

Prendergast, Canice, "The Provision of Incentives within Firms," *Journal of Economic Literature*, Vol. 37, 7-63, 1999.

Hirsch, Barry. T., “Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?” *Journal of Economic Perspectives*, Vol. 22(1), 153–176, Winter 2008.

Lazear, Edward P., and Kathryn L. Shaw, “Personnel Economics: The Economist's View of Human Resources.” *Journal of Economic Perspectives*, 21(4), 91–114, Fall 2007.

Hallock, Kevin F., “Job Loss and the Fraying of the Implicit Employment Contract.” *Journal of Economic Perspectives*, Vol. 23(4), 69-93, Fall 2009.

- Union effects and regulations – “card-check” and secret ballots
- Public sector labor markets
- Organizational practices
- Executive compensation
- Labor law violations

## **9. Unemployment**

GB, Chapter 12.

Yellen, Janet, "Efficiency Wage Models of Unemployment," *American Economic Review*, May 1984.

Meyer, Bruce, “Lessons from the U.S. Unemployment Insurance Experiments,” *Journal of Economic Literature*, Vol. 33(1), 91-131, March 1995.

Vodopivec, Milan, “Choosing a System of Unemployment Income Support: Guidelines for Developing and Transition Countries,” *The World Bank Research Observer*, 21 (2006).

Babcock, Linda, William J. Congdon, Lawrence F. Katz, and Sendhil Mullainathan, “Notes on Behavioral Economics and Labor Market Policy.” *IZA-Journal of Labor Policy*, Vol. 1(2), 2012.

Council of Economic Advisers, “Active Labor Market Policies: Theory and Evidence for What Works.” December 2016.

Moffitt, Robert, “Unemployment benefits and unemployment.” IZA World of Labor, May 2014.

- Unemployment Insurance and work incentives
- Extended Benefits

- Job search assistance
- Training programs

## 10. Globalization and Labor Markets

Klein, Michael, Scott Schuh, and Robert K. Triest, *Job Creation, Job Destruction, and International Competition*. Kalamazoo: Upjohn Institute for Employment Research, 2003.

George Johnson and Frank Stafford, “The Labor Market Implications of International Trade”, in Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics*, Vol. 3B, Elsevier, 1999, 2215-88.

Freeman, Richard. B., “People Flows in Globalization.” *Journal of Economic Perspectives*, 20(2): 145–170, Spring 2006.

Clemens, Michael, Claudio E. Montenegro, and Lant Pritchett, “The Place Premium: Wage Differences for Identical Workers across the U.S. Border.” CGD Working Paper No. 148, revised December 2008.

- Trade policies and labor outcomes
- Foreign direct investment
- International outsourcing
- Labor standards
- International wage convergence

## 11. Self-Employment and Entrepreneurship

Blanchflower, Daniel G., and Andrew J. Oswald, “What Makes an Entrepreneur?” *Journal of Labor Economics*, vol. 16(1), 26-60, 1998.

Fairlie, Robert W., and Alicia M. Robb, “Why are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital.” *Journal of Labor Economics*, vol.25(2), 289-, 2007.

Hurst, Erik, and Benjamin Wild Pugsley, “What Do Small Firms Do?” *Brookings Papers on Economic Activity*, 73-118, Fall 2011.

- Capital (financing) constraints
- Business and regulatory environment
- Personality traits
- Intergenerational links

## Academic Accommodation for a Disability

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at (703) 993-2474. All academic accommodations must be arranged through the DRC as early as possible in the term.

## SPP Policy on Plagiarism

The profession of scholarship and the intellectual life of a university as well as the field of public policy inquiry depend fundamentally on a foundation of trust. Thus any act of plagiarism strikes at the heart of the meaning of the university and the purpose of the School of Public Policy. It constitutes a serious breach of professional ethics and it is unacceptable. Plagiarism is the use of another’s words or ideas presented as one’s own. It includes, among other things, the use of specific words, ideas, or frameworks that are the product of another’s work. Honesty and

thoroughness in citing sources is essential to professional accountability and personal responsibility. Appropriate citation is necessary so that arguments, evidence, and claims can be critically examined. Plagiarism is wrong because of the injustice it does to the person whose ideas are stolen. But it is also wrong because it constitutes lying to one's professional colleagues. From a prudential perspective, it is shortsighted and self-defeating, and it can ruin a professional career. The faculty of the School of Public Policy takes plagiarism seriously and has adopted a zero tolerance policy. Any plagiarized assignment will receive an automatic grade of "F." This may lead to failure for the course, resulting in dismissal from the University. This dismissal will be noted on the student's transcript. For foreign students who are on a university-sponsored visa (eg. F-1, J-1 or J-2), dismissal also results in the revocation of their visa. The SPP policy on plagiarism is supplementary to the George Mason University Honor Code; it is not intended to replace it or substitute for it.