

George Mason University
Schar School of Policy and Government

Labor Markets and Policies (PUBP 732)
Spring 2017

DRAFT SYLLABUS AND READINGS

Instructor: John S. Earle (earle@gmu.edu)
Office: Founders Hall 533, (703)993-8023
Office hours: Tuesdays, 2-4 p.m., or by appointment

“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 that we may address includes the following:

- 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 no class during Thanksgiving week.

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 October 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., PUBP 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 brand-new 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. 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.

Additional readings and handouts, especially on policy applications and alternative theoretical perspectives, will be made available in due course. Finishing the assigned reading 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>

- 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.

Eric V. Edmonds and Nina Pavcnik, “Child Labor in a Global Economy,” *Journal of Economic Perspectives*, 19 (1), 199-220, Winter 2005.

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

- 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.

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

Davis, Steven J., John H. Haltiwanger, Ronald Jarmin, Joshua Lerner, and Javier Miranda, "Private Equity and Employment." CES Working Paper, October 2011. Downloadable:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1107175

- 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.

- Payroll tax
- Hiring credits and wage subsidies
- Immigration effects on native workers' wages and employment (ex: IT workers)

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.

- 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", NBER Working Paper 11986, January 2006.

Claudia Goldin and Lawrence Katz (2007), 'Long-run Changes in the US Wage Structure: Narrowing, Widening, Polarizing', National Bureau of Economic Research Working Paper No. 13568.

Gottschalk, Peter, and Robert Moffitt, "The Rising Instability of US Earnings." *Journal of Economic Perspectives*, Vol. 23(4), 3-24, Fall 2009.

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 21st Century*, by Thomas Piketty)." Forthcoming in the *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.

- 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