

B44: THE ECONOMICS OF INDUSTRIAL RELATIONS 2004

COURSE STRUCTURE AND DETAILED READING LIST

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This is a course about the economics of labour relations, a topic which has recently re-emerged as a topic of major interest for labour economists. The course aims to provide a balance between the institutional approach that has been followed by students of industrial relations for many years, but drawing heavily on the various developments in labour economics in recent years.

The topics covered include: (1) Facts about the labour market; (2) history and current institutions of industrial relations in the UK and US; (3) determination of union membership; (4) theoretical models of union bargaining: 2 sector models, labour demand models, contract curve models, rent-sharing; (5) human resource systems overview; (6) empirical effects of unions on wage and non-wage outcomes; (7) Compensation Policies – piece rates/time rates/incentive pay, group rewards, efficiency wages, deferred compensation, promotions/tournaments (8) wage inequality; (9) minimum wages;

[References with a * are the more recommended pieces to read]

Many of these are available on the web. My homepage <http://cep.lse.ac.uk/people/vanreenen/> has links to many of these papers

General Reading

There is no single ideal text for the course (though Booth (1995) is best for the union section of the course).

(*) Addison, J. and Schnabel, C. (2003) International Handbook of Trade Unions, Edward Elgar

Baron, J. and Kreps, D. (1999) Strategic Human Resources chapter 11-12, New York: Wiley

(*) Booth, A. (1995) The Economics of the Trade Union, Cambridge: Cambridge University Press.

(*) Cully, M., S. Woodland, A.O'Reilly and G.Dix (1999) Britain at Work: As Depicted by the 1998 Workplace Employee Relations Survey, London: Routledge.

(*) Millward, Neil, Bryson, Alex, and Forth, John, (2000) All Change at Work? British Employment Relations 1980-1998, as Portrayed by the Workplace Industrial Relations Survey Series, Routledge, London,

(*) Freeman, R. and Medoff, J. (1984) What do unions do?, Basic Books.

Layard, R., Nickell, S. and Jackman, R. (1991) Unemployment, Oxford University

Press.

Lazear, E. (1996) Personnel Economics, Chicago University Press

Layard, R. and Nickell, S. (1999) 'Labour Market Institutions and Economic Performance' in O. Ashenfelter and D. Card (eds.) Handbook of Labor Economics, North Holland Press.

Milgrom, P. and Roberts, J. (1992) Economics, Organization and Management, Prentice-Hall International

Polachek, S. and S. Siebert (1993) The Economics of Earnings, Cambridge University Press.

1. Introductory Material

Course description.

Introductory material - facts about the labour market.

History

2. The Economic Analysis of Unions

(a) Who Joins Unions and Recent Changes in Unionization

(*) Pencavel, John (2003) "The Surprising Retreat of Union Britain" in Blundell, Card and Freeman *Towards a Premier League Economy*, Princeton University Press. Also at www.nber.org

(*) Booth, A. (1995) The Economics of the Trade Union, Cambridge University Press, Chapter 2.

Brown, William, Deakin, Simon, and Ryan, Paul, (1997) "The Effects of British Industrial Relations Legislation 1979-97", National Institute Economic Review, No. 161, July, 69-83.

(*) Cully, M., S. Woodland, A.O'Reilly and G.Dix (1999) Britain at Work: As Depicted by the 1998 Workplace Employee Relations Survey, London: Routledge.

(*) Disney, R. (1990) Explanations of the decline in trade union density in Britain: an appraisal, British Journal of Industrial Relations, 28, 165-78.

Disney, R., Gosling, A. and Machin, S. (1995) British unions in decline: determinants

of the fall in union recognition in the 1980s, Industrial and Labor Relations Review, 48, 403-19.

- (*) Freeman, R. and Pelletier, J. (1990) The impact of industrial relations legislation on British union density, British Journal of Industrial Relations, 28, 141-64.

Hicks, Stephen, (2000) "Trade Union Membership 1998-99: An Analysis of Data from the Certification Officer and the Labour Force Survey", Labour Market Trends, 108 (7), July, 329-40.

Machin, Stephen (2003) "Trade Union decline, new workplaces and new workers" chapter 2 in Gospel, H. and Wood, S. *Representing Workers*, London: Routledge

- (*) Metcalf, D. (2003) "British unions: dissolution or resurgence Revisited?" in Dickens, Gregg and Wadsworth The State of Working Britain

- (*) Cully, M., S. Woodland, A. O'Reilly and G. Dix (1999) Britain at Work: As Depicted by the 1998 Workplace Employee Relations Survey, London: Routledge.

Undy, Roger, Fosh, Patricia, Morris, Huw, Smith, Paul, and Martin, Roderick, Managing the Unions: The Impact of Legislation on Trade Unions' Behavior, Oxford University Press, Oxford, 1996.

Wood, Stephen, and Godard, John, "The Statutory Union Recognition Procedure in the Employment Relations Bill: A Comparative Analysis", British Journal of Industrial Relations, 37 (2), June 1999, 203-45.

(b) Overview history and comparative analysis of industrial relations

Bean, R. (1992) *Comparative Industrial Relations*, Second Edition London: Croom Helm (especially chapter on collective bargaining)

- (*) Booth, A. (1995) Chapters 1, 3.

Clark, A. and Oswald, A. (1993) Trade union utility functions: A survey of union leaders' views, Industrial Relations, 32, 391-411.

- (*) Layard, R., Nickell, S. and Jackman (1991) Chapter 2.

Fallon, P. and Verry, D. (1988), Chapter 6.

Reder M., (1994) On Labor's Bargaining Disadvantage, in Kerr C., and Staudohar P. (eds.) Labor Economics and Industrial Relations, Harvard University Press.

(c) The Union wage mark-up

Andrews, Martyn J., Stewart, Mark B., Swaffield, Joanna K., and Upward, Richard, (1998) “The Estimation of Union Wage Differentials and The Impact of Methodological Choices”, Labour Economics, 5, 449-474.

Blanchflower, David G. and Bryson, Alex, (2003) “Changes over Time in Union Relative Wage Effects in the UK and USA Revisited” Addison, J. and Schnabel, C. (2003) International Handbook of Trade Unions, Edward Elgar

(* Booth, A. (1995) Chapters 6.

Lewis, H. Gregg (1986) Union Relative Wage Effects: A Survey, University of Chicago Press.

(* Stewart M. (1987) Collective Bargaining, closed shops and relative pay, Economic Journal, 97, 140-56.

Stewart M. (1990) Union wage differentials, product market influences and the division of rents, Economic Journal, 100, 1127-37.

Stewart, M. (1991) Union wage differentials in the face of changes in the economic and legal environment, Economica, 58, 155-72.

(* Stewart, M. (1995) Union Wage Differentials in an era of declining unionisation' Oxford Bulletin of Economic Statistics, 5, 243-66.

(d) Economic Models of Trade Unions

(* Booth, A. (1995) Chapters 4-5.

Manning, A. (1987) An integration of trade union models in a sequential bargaining framework, Economic Journal, 97, 121-39.

(* McDonald, I. and Solow, R. (1981) Wage bargaining and employment, American Economic Review, 71, 896-908.

Naylor, R. (2003) “Economic Models of union behaviour” in Addison, J. and Schnabel, C (2003). International Handbook of Trade Unions, Edward Elgar

3. Union and Human Resource Effects on Non-Wage Outcomes

Overview

(* Booth, A. (1995) Chapters 7

Freeman,R. (1994) 'American Exceptionalism in the Labor Market:Union Non-Union Differentials in the United States and other Countries' Chapter 11 in Kerr and Staudohar (eds.) Labor Economics and Industrial Relations, Harvard University Press.

- (*) Mishel, L. and Voos, P. (1992) Unions and Economic Competitiveness, Economic Policy Institute [Especially Chapters by Belman (good appendix), Keefe (on technology) and Freeman (overview)].

Metcalf D (1994) "Unions and productivity, financial performance and investment: international evidence" in Addison and Schnabel (2003) op cit.

Milgrom, P. and Roberts, J. (1992) op cit. esp. Chapters 1,10, 11

Milgrom, P. and Roberts, J. (1993) 'Complementarities and Fit: Strategy, Structure and Organizational Change in Manufacturing' *Journal of Accountancy and Economics*, 19, 179-

(a) Employment

- (*) Blanchflower, D., Millward, N. and Oswald, A. (1991) 'Unionism and Employment Behaviour' Economic Journal, 101, 815-34.

Machin, S. (1995) 'Plant closures and unionization in British establishments', British Journal of Industrial Relations, 33, 55-68.

- (*) Machin, S. and Wadhvani, S. (1991) 'The effects of unions on organisational change and employment', Economic Journal, 101, 835-54.

Hamermesh, D. (1993) Labor Demand Princeton University Press (look up references to unions in index).

(b) Productivity

Black, S. and Lynch, L. (1997) 'How to compete: The Impact of Workplace Practices and IT on productivity' National Bureau of Economic Research Working Paper No. 6120

- (*) Freeman, R. and Medoff, J. (1984) What do unions do?, Basic books.

- (*) Ichinowski, C. , Shaw, K. and Prenzushi, G. (1997) 'The effects of human resource management practices on productivity' American Economic Review, 87, June, 291-313

Gregg, P., Machin,S. and Metcalf, D. (1993) 'Signals and Cycles? Productivity Growth and Changes in Union Status', Economic Journal, 103, 419, 894-907

Metcalf, D. (2003) "Unions and Productivity, financial performance and investment: international evidence" in Addison, J. and Schnabel, C. International Handbook of Trade Unions, Edward Elgar

(c) Profits

Machin, S. and Stewart, M. (1996) Trade unions and financial performance, Oxford Economic Papers , 48, 213-41

Menezes-Filho, N. (1994) 'Unions and Profitability over the 1980s: Some Empirical Evidence on Union-Firm Bargaining in the U.K.', Economic Journal 107, 651-670

(d) Investment and Innovation

(* Addison, J. and Hirsch, B. (1989) Union effects on productivity, profits and growth: has the long run arrived?, Journal of Labor Economics, 7, 72-105.

Grout, P. (1984) 'Investment and Wages in the Absence of Binding Contracts', Econometrica, 52(2): 449-60.

Machin, S. and Wadhvani, S. (1991) The effects of unions on investment and innovation: evidence from WIRS, Economic Journal, 101, 324-30.

Menezes-Filho, N. and Van Reenen, J. (2003) "Unions and innovation: a survey of the theory and empirical evidence" in Addison and Schnabel (2003) op cit.

(* Menezes-Filho, N. Ulph, D., and Van Reenen, J. (1998) R&D and union bargaining: Evidence from British Companies and Establishments', Industrial and Labor Relations Review, 52, 1, 45-63

(e) Industrial Action

Cramton, P. and Tracy, J. (2003) "Unions, bargaining and strikes" in Addison, J. and Schnabel, C. (2003) International Handbook of Trade Unions, Edward Elgar

Harrison, A. and Stewart, M. (1994) 'Is Strike Behaviour Cyclical?', Journal of Labor Economics, 12, 4, 1524-553

Hyman, R. (1989) 'Strikes', London: Macmillan (more sociological)

(* Kennan, J. and Wilson, R. (1990) Can Strategic Bargaining Models Explain Collective Bargaining Data?, American Economic Review Papers and Proceedings, May, 405-409.

4. Other models of non-competitive Wage Setting

(a) Efficiency Wages

- (*) Akerlof, G. and J. Yellen (1984) Efficiency Wage models of the labour market, Cambridge University Press.
- Dickens, W. and K. Lang (1985) A test of dual labour market theory, American Economic Review, 75, 792-805.
- Levine, D. (1992) Can wage increases pay for themselves?, Tests with a production function, Economic Journal, 102, 1102-14.
- Polachek and Siebert (1993) Chapter 9.
- (*) Shapiro, C and Stiglitz, J (1984) Equilibrium employment as a worker disciplining device, American Economic Review, 74, 433-444.

(b) Rent Sharing Models

- Abowd, J. and Lemieux, T. 'The Effects of Product Market Competition on Collective Bargaining Agreements', Quarterly Journal of Economics, 108, 983-1014.
- Blanchflower, D., Oswald, A. and Garrett, M. (1991) 'Insider Power in Wage Determination', Economica, 57, 143-70.
- Blanchflower, D., Oswald, A. and Sanfey, P. (1994) 'Wages, Profits and Rent-Sharing', Quarterly Journal of Economics, February, CXI,
- Rose, N. (1987) 'Labor Rent Sharing and Regulation: Evidence from the trucking industry' Journal of Political Economy, 95, 1146-1178.
- (*) Van Reenen, J. (1996) 'The Creation and Capture of Economic Rents: Wages and Innovation in a Panel of UK Companies', Quarterly Journal of Economics, February, CXI, 443, 195-226

(c) Incentive Based Pay

- Baron, J. and Kreps, D. (1999) Strategic Human Resources chapter 11-12, New York: Wiley
- Milgrom and Roberts, op-cit
- Lazaer, Ed

5. Wage Inequality

- (*) D. Autor, L. Katz and A. Krueger (1998) "Computing Inequality: Have Computers Changes the Labor Market? ", Quarterly Journal of Economics, 113, 1169-1213.

E. Berman, J. Bound and Z. Griliches (1994) "Changes in the Demand for Skilled Labor Within US Manufacturing Industries: Evidence from the Annual Survey of Manufacturing", Quarterly Journal of Economics, 109, 367-98.

- (*) E. Berman, J. Bound and S. Machin (1998) "Implications of Skill-Biased Technological Change: International Evidence ", Quarterly Journal of Economics, 113, 1245-78.

J. Bound and G. Johnson (1992) "Changes in the Structure of Wages During the 1980's: An Evaluation of Alternative Explanations", American Economic Review, 371-392.

Card, D., Lemieux, T. and Riddell, C. (2003) "Unions and the Wage Structure" in Addison, J. and Schnabel, C. (2003) International Handbook of Trade Unions, Edward Elgar

Gosling, A., S. Machin and C. Meghir (1994) "What has happened to men's wages since the mid-1960s?", Fiscal Studies, 15, 63-87.

- (*) Johnson, G. and F. Stafford (1999) "The labor market implications of international trade", Chapter 34 in O. Ashenfelter and D. Card (eds.) (1999) Handbook of Labor Economics, North Holland Press.
- (*) L. Katz and D. Autor (1999) "Changes in the wage structure and earnings inequality", Chapter 26 in O. Ashenfelter and D. Card (eds.) (1999) Handbook of Labor Economics, North Holland Press.

A. Krueger (1993) "How have computers changed the wage structure? Evidence from Microdata", Quarterly Journal of Economics, 33-60.

S. Machin (2003) "Wage Inequality in the UK", in Dickens, R., Gregg, P. and Wadsworth, J. The State of Working Britain

S. Machin (1998) "Recent shifts in wage inequality and the wage returns to education", National Institute Economic Review, 166, 87-96.

- (*) S. Machin and J. Van Reenen (1998) "Technology and Changes in Skill Structure: Evidence From Seven OECD Countries", Quarterly Journal of Economics, 113, 1215-44.

6. Minimum Wages

- (*) C. Brown (1999) "Minimum wages, employment, and the distribution of income", Chapter 32 in O. Ashenfelter and D. Card (eds.) (1999) Handbook of Labor Economics, North Holland Press.

- (*) C. Brown, C. Gilroy, and A. Kohen (1982) "The Effect of the Minimum Wage on Employment and Unemployment", Journal of Economics Literature, 487-528.
- D. Card and A. Krueger (1995) Myth and Measurement: The New Economics of the Minimum Wage, Princeton University Press.
- (*) D. Card and A. Krueger (1994) "Minimum Wages and Employment: A Case Study of the Fast-food Industry in New Jersey", American Economic Review, 84, 772-93.
- (*) R. Dickens, S. Machin and A. Manning (1999) "The Effects of Minimum Wages on Employment: Theory and Evidence From Britain", Journal of Labor Economics, 17, 1-22.
- J.. Dolado, F. Kramarz, S. Machin, A. Manning, D. Margolis and C. Teulings (1996) "The economic impact of minimum wages in Europe", Economic Policy, 317-372.
- (*) D. Metcalf (1999) "The Low Pay Commission and the National Minimum Wage", Economic Journal Features, 109, F46