

B44: THE ECONOMICS OF INDUSTRIAL RELATIONS
Department of Economics, University College London
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Aims and objectives

This course is designed to equip students with an understanding of the operation of labour markets, their main institutional features and the economic analysis of employment contracts.

Description

This course is about the economics of labour relations, an issue that has recently re-emerged as a topic of major interest for economists. The course aims to provide a balance between the institutional approach that has been followed by students of industrial relations for many years and various modern developments in labour economics. We rely on economic theory to structure thoughts and study the empirical literature to link these thoughts to reality.

Further Information and lecture notes are available at:

http://cep.lse.ac.uk/people/vanreenen/lecture_notes/. I will post new material here from time to time. A more detailed reading list relating to each topic can also be found here.

Content

We review standard neoclassical labour market theory and its problems in explaining wage, employment and human capital formation (schooling, training, etc.) data. We use this to motivate the study of labour relations and, in particular, trade unions and human-resource systems. The remainder of the course consists of two parts. First, we discuss the traditional view of unions as worker organizations that try to monopolise the labour market. We analyse how wages and employment are set according to various union models and we discuss how unions may distort the efficient allocation of labour. We use our theoretical understanding of unions to critically discuss the empirical literature on the wage and employment effects of unions. In the second part of the course, we discuss which human-resource policies employers can use to hire and retain suitable employees, to insure workers against income risk and to motivate them to work hard and invest in the right skills. We pay particular attention to the fact that these various goals cannot be isolated and are best pursued by coherent use of a system of human-resource policies. Topics include incentive pay, efficiency wages, deferred compensation, promotions and tournaments and executive pay. We raise the possibility that unions are more than just monopolists and facilitate the implementation of effective human-resource systems. Throughout, we relate our discussion to data and results from the empirical literature. Finally we discuss topics relating to the increase in wage inequality in the US and UK in recent year.

Organization

Outline (with tentative timing):

1. Introduction and overview (1 week)

- a. Overview of course
- b. "Facts" about labour markets, institutions and economic performance

2. Trade unions (4 weeks)

- a. Overview, history, union membership
- b. Wage setting, employment and allocative efficiency: Right-to-manage, monopoly-union and efficient-bargaining models; Two-sector models

- c. Empirical analysis of wage and employment effects of unions
- d. Effects of unions on productivity, investment and innovation

3. Human-resource systems (4 weeks)

- a. Overview
- b. Incomplete contracts and labour relations
- c. Compensation policies and internal labor markets: Selection, motivation, insurance, specific investments (topics include individual incentive pay, group rewards, efficiency wages, deferred compensation, promotions and tournaments)
- d. Empirical analysis of the effect of human-resource systems

4. Other Topics (1 week)

- a. Reasons for the growth of Inequality - technology, trade, institutions
- b. Minimum Wages and Low Pay

Lectures: Fridays 2-4pm Darwin lecture theatre starting January 16th 2004.

Classes: Beginning Week 4 (check Department for exact times)

Course work: Four problem sets, one for each class, which typically include some exercises and/or short written assignments (but not full essays). *You are required to submit course work for 3 out of 4 classes.* I recommend that you hand in course work for all 4 classes. Course work should be submitted to your class teacher (Berlinksi) via the Tutorial Class pigeon-holes before 12 noon on the Thursday before the next class. *Late submissions are not accepted.* All course work must be submitted with a cover sheet attached to the front. These are available from the Reception. Problem sets will be posted on the course website at least one week before the deadlines.

Examination: Two hour written exam in Term 3 (3 questions from 6). Same format as previous years.

Reading

Lecture notes are available. Required reading includes these handouts and (parts of)

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

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

Booth (1995) is a comprehensive text on unions, with US and UK data, theory and empirical results. We will in particular focus on Chapters 1–7. Milgrom and Roberts (1992) discusses the modern theory of economic organization. Part V on employment relations is particularly relevant to this course. The lecture notes are partial and are not a substitute for your own notes or the required reading. A detailed reading list will be compiled on the course web site as we go.

Another very good book with chapters on all the main topics on the economics of trade unions is Addison, J. and Schnabel, C. (2003) *The International Handbook of Trade Unions*, Edward Elgar.

This has only just come out so may not yet be in the library.

Here, we only list some potentially useful background resources. Most importantly, you may want to consult your favourite labour economics text book, like

Borjas, G.J. (2000), *Labor Economics*, second edition, McGraw-Hill, Boston.

Bosworth, D., P. Dawkins, and T. Stromback (1996), *The Economics of the Labour Market*, Prentice Hall, New York.

In particular, Borjas (2000) has relatively accessible sections on various topics discussed in this course. Some useful alternative specialized texts are

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

Freeman, R.B. and J.L. Medoff (1984), *What Do Unions Do?*, Basic Books, New York.

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

The following two books are good sources of information on UK employment relations.

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

Millward, N., A. Bryson, and J. Forth (2000), *All Change at Work? British Employment Relations 1980–1998, as Portrayed by the Workplace Industrial Relations Survey Series*, Routledge, London.

International comparisons of institutions and outcomes can be found in

Layard, R., S. Nickell, and R. Jackman (1991), *Unemployment; Macroeconomic Performance and the Labour Market*, Oxford University Press, Oxford.

Layard, R., S. Nickell, and R. Jackman (1994), *The Unemployment Crisis*, Oxford University Press, Oxford.

Finally, the Handbook of Labor Economics (North Holland, Amsterdam, various volumes) is generally a good source. However, many of the chapters are relatively technical.