

ISSUES IN POLITICAL ECONOMY (14.298)

Spring 2000

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Mondays and Wednesdays from 9 to 10:30 in Room E51-393.

This course deals with the political economy of inequality and redistribution, emphasizing primarily theoretical results. This syllabus probably extends over more topics than it will be possible to cover during the term, so please do not hesitate to tell me about your preferences. There are going to be four assignments. No final exam.

Many papers are not in the course packet and will be handed in class. Only starred articles will be discussed at some length in class. The other ones are recommended reading.

I – The capital/labor conflict.

1. Facts

Kuznets, S. (1955), "Economic growth and income inequality", *AER* 65, 1-28.

Lindert, P. and J. Williamson (1985), "Growth, equality and history", *Explorations in Economic History*, v22, 341-377.

Lindert, P. (1986), "Unequal English wealth since 1670", *JPE* v94, 1127-1162.

Kessler, D. and A. Masson, "On five hot issues on wealth distribution", *EER* v32, 644-653.

2. The classical model of growth and distribution

*Stiglitz, J. (1969), "Distribution of income and wealth among individuals", *Econometrica* v.37 n3.

3. The nature of capital-labor relationship: efficient institutions or exploitation?

Roemer, J. (1986), "Should marxists be interested in exploitation?" in *Analytical Marxism*, J. Roemer editor, Cambridge: Cambridge University Press, 260-282.

*Dow, G. (1993), "Why does capital hire labor?", *AER* v.83 (1), 118-134.

Legros, P., and A. Newman (1996), "Wealth effects, distribution, and the theory of organization", *JET* v.70, 312-341.

*Kremer, M., "Worker cooperatives as economic democracies", mimeo.

Mailath, G., and A. Postlewaite, "Workers vs. firms: bargaining over a firm's value", *REStud* v. 57(3), 369-380.

*Landes, D. (1986), "What do bosses really do?", *Journal of Economic History*, v.46(3), 585-623.

Banerjee, A. and A. Newman (1993), "Occupational choice and the process of development", *Journal of Political Economy* v101n2, 274-299.

4. Bargaining over wages and employment: what can unions do?

a) Facts

Katz, L. and L. Summers (1989), "Industry rents: evidence and implications", *Brookings Papers* 209-290.

Freeman, R (1997), "When Earnings Diverge: Causes, Consequences, and Cures for the New Inequality in the U.S.", National Policy Association Report # 284, Washington, DC.

Freeman, R., and J. Medoff: chapters 5, 10, and 12 of *What do unions do?*, New York: Basic Books.

b) Theory: long term effects on wages and employment

*McDonald, I., and R. Solow (1981), "Wage bargaining and employment", *AER* v.71 (5), 896-908.

Layard, R., and S. Nickell (1990), "Is unemployment lower if unions bargain over employment?", *QJE* v. 105(3), 773-787.

Johnson, G. (1990), "Work rules, featherbedding, and Pareto-optimal union-management bargaining", *Journal of Labor Economics*, v.8 (1), 237-259

*Blanchard, O., and F. Giavazzi (2000), "Macroeconomic effects of regulation and deregulation in goods and labor markets", mimeo MIT.

*Spector, D.(2000), "Competition and union power", mimeo MIT.

*Calmfors, L. (1993), "Centralization of wage bargaining and macroeconomic performance – a survey", *OECD economic studies*, v.0 (21), 161-191

Calmfors, L., and J. Driffil (1988), " Bargaining structure, corporatism and macroeconomic performance", *Economic Policy* v.6, 13-62.

*Freeman, R., and R. Gibbons, "Getting together and breaking apart: The decline of centralized bargaining", pages 345-370 in *Differences and Changes in Wage Structures*, Chicago: University of Chicago Press.

II - Wage inequality: selected issues

1. Endogenizing complementarity between skilled and unskilled labor

*Kremer, M. and E. Maskin (1996), "Wage inequality and segregation by skill ", *NBER Working Paper* # 5718.

2. Trade

*Krugman, P. (1995), "Growing trade: causes and consequences", *Brookings Papers on Economic activity*, 1995, v.1, p.327-377.

Freeman, R. (1995), "Are your wages set in Beijing?", *Journal of Economic Perspectives*, v.9 n.3, 15-32.

*Spector, D. (1999), "Is it possible to redistribute the gains from trade using income taxation?", *MIT Working Paper* No 99-13.

III - Normative views: the equity-efficiency tradeoff

Atkeson, A. and R. Lucas, (1992), "On efficient distribution with private information", *Review of Economic Studies*, v.53 n.3, 427-453.

Varian, H. (1974), "Equity, Envy and Efficiency", *Journal of Economic Theory*, v.9 n.1.

IV - The politics of economic reform and redistribution

*Dixit, A. and J. Londregan (1989) "Redistributive Politics and Economic Efficiency," *American Political Science Review* v. 89(4), 856-866.

*Saint-Paul, G. (1995) "Some Political Aspects of Unemployment," *European Economic Review* v. 39, 575-582.

*Piketty, T. (1995) "Social Mobility and Redistributive Politics," *Quarterly Journal of Economics*, v. 110(3), 551-584.

*Myerson, R. (1993) "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems," *American Political Science Review* v. 87, 856-869.

Grossman, G. and E.Helpman (1994), "Protection for Sale" *American Economic Review*, v. 84 (4), p 833-50.

Hayek, F. (1960), "Taxation and redistribution" in *The Constitution of Liberty*, University of Chicago Press (chapter 20).

V - Voting vs. the market: the informational approach

*Feddersen, T. and W. Pesendorfer (1997) "Voting Behavior and Information Aggregation in Elections with Private Information", *Econometrica* v. 65 (5)., 1029-58.

Mailath, G. and A. Postlewaite (1990), "Asymmetric Information Bargaining Problems with Many Agents", *REStud* v. 57 (3), p 351-67.

*Gul, F., and A. Postlewaite (1992), "Asymptotic Efficiency in Large Exchange Economies with Asymmetric Information", *Econometrica* v. 60 (6), p 1273-1292.

VI -The government: benevolent or corrupt?

*Banerjee, A. (1997), "A theory of misgovernance", *Quarterly Journal of Economics*, v. 112(4), 1289-1332.

*Hart, O., Shleifer, A., and R. Murphy, "The proper scope of government: theory and an application to prisons", *Quarterly Journal of Economics*, v. 112(4), 1127-1161.

Dixit, A. (1997), "Power of Incentives in Private versus Public Organizations", *American Economic Review*, v. 87 (2), 378-82.
