

LABOUR ECONOMICS (EC533), LSE PHD: FIRMS AND WORKERS

John Van Reenen, Ronald Coase School Professor, Office: 2.27 32 LIF

j.vanreenen@lse.ac.uk

This part of the course takes a firm-level focus to labour economics, which has been one of the most flourishing parts of the recent literature. Many of the topics overlap with organizational economics. In the first lecture we begin by documenting facts on the large heterogeneity of productivity (and wages) between firms and countries (i.e. the wealth of nations). Then we look at the reasons for the dispersion of productivity, focusing on management practices. We examine recent attempts to quantify management practices, their causal impact on firm performance and the drivers of adoption, including policy questions. The third lecture focuses on the distribution of power within firms, and what causes some firms to grant much autonomy to employees and others to remain centralized. The fourth lecture will look at “relational” (long-term) employment contracts within firm and the identification of organizational complementarities (e.g. between skills and technology) more generally. Finally, we examine some important aspects of inequality that have been a focus of the recent literature: (i) extreme inequality at the top of the distribution (especially CEO remuneration) and (ii) the share of national income taken by workers (the fall in the labour share) and (ii) among all workers (depending on time). The course has an empirical focus, but there will be an introduction to theoretical aspects in all topic

Lecture Structure (5 three hour lectures)

Lecture 1a: Facts on Productivity heterogeneity [L1, Nov 6]

Lecture 1b: Management-based explanations of productivity dispersion [L2, Nov 6]

Lecture 2a: Impact of Management Practices on performance [L3, Nov 13]

Lecture 2b: Drivers of Management Practices [L4, Nov 13]

Lecture 2c: Linking micro to macro [L4, Nov 13]

Lecture 3: Decentralization within Firms [L5, Nov 20]

Lecture 3: Hierarchies [L6, Nov 20]

Lecture 4a: Organizational Complementarities [L7, Nov 27]

Lecture 5a: Inequalities – CEOs [L8, Dec 4]

Lecture 5b: Inequalities - Between workers and capitalists [L9, Dec 4]

Lecture 5c: Inequalities – Among workers [L10, Dec 4]

I. PRODUCTIVITY HETEROGENEITY

I have marked the more important articles with a *

Productivity Heterogeneity between Countries;

Caselli, Francesco (2005) “Accounting for Cross Country Income Differences” in *Handbook of Economic Growth*, Philippe Aghion and Stephen Durlauf (eds) North-Holland: Elsevier.

Jones, Charles (2015) “The Facts of Economic Growth” Chapter 2 in John Taylor and Harald Uhlig (eds) *Handbook of Macroeconomics Volume 2A*, North Holland

Productivity Heterogeneity between firms

Decker, Ryan, John Haltiwanger, Ron S. Jarmin, and Javier Miranda (2018) “Changing Business Dynamism and Productivity: Shocks vs. Responsiveness” NBER Working Paper No. 24236, <https://www.nber.org/papers/w24236>

- * Syverson, Chad (2011) “What determines productivity?” *Journal of Economic Literature*, 49(2) 326-65 <http://home.uchicago.edu/~syverson/productivitysurvey.pdf>

Walker, Francis (1887) “The Source of Business Profits.” *Quarterly Journal of Economics*. 1(3): 265-288.

II. MANAGEMENT

Managers vs Management Practices

Abowd, John, Francis Kramarz, and David Margolis (1999) “High Wage Workers and High Wage Firms” *Econometrica* 67(2): 251-333.

- * Bertrand, Marianne, and Antoinette Schoar (2003) “Managing with Style: The Effect of Managers on Firm Policies.” *Quarterly Journal of Economics*, 118 (4): 1169-1208.

Bandiera, Oriana, Stephen Hansen, Andrea Prat, and Raffaella Sadun. (2017) “CEO Behavior and Firm Performance”, *Journal of Political Economy* 128(4), 1325-1369

Bender, Stefan, Nick Bloom, David Card, Stefanie Wolter and John Van Reenen (2018) “Management Practices, Workforce Selection and Productivity” *Journal of Labor Economics* 36(S1) 371–409

Edmans, Alex and Xavier Gabaix (2016) “Executive Compensation: A Primer” *Journal of Economic Literature*, 54(4), 1232-1287

Lazear, Edward, Kathryn Shaw and Chris Stanton (2015) “The Value of Bosses” *Journal of Labor Economics*, 33(4),

Lucas, Robert. (1978) “On the Size Distribution of Business Firms”, *Bell Journal of Economics*, 9: 508-523.

Perez-Gonzalez, Francisco (2006) “Inherited Control and Firm Performance,” *American Economic Review*, 1559–1588.

Smith, Mathew, Daniel Yagan, Owen Zidar and Eric Zwick (2019) “Capitalists in the Twenty-First Century” *Quarterly Journal of Economics* 134 (4) 1675–1745

Measuring Management

Bloom, Nick, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten and John Van Reenen, “What drives differences in management?” *American Economic Review* 109(5) 1648–1683 <http://cep.lse.ac.uk/pubs/download/dp1470.pdf>

Bloom, Nick, Renata Lemos, Raffaella Sadun and Daniella Scur (2014) “The new empirical economics of management” *Journal of the European Economic Association* 12: 835–76

- * Bloom, Nicholas, and John Van Reenen (2007) “Measuring and Explaining Management Practices across Firms and Countries”, *Quarterly Journal of Economics*, 122(4), 1341-1408.

The Impact of Management Practices on Firm Performance

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2005) “Social Preferences and the Response to Incentives: Evidence from Personnel Data.” *Quarterly Journal of Economics*, 120(3): 917–62.

- * Bandiera, Oriana, Iwan Barankay and Imran Rasul (2007) “Incentives for managers and inequality among workers: Evidence from a firm-level experiment” *Quarterly Journal of Economics* 122(2) 729-773

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2011) “Field Experiments with Firms” *Journal of Economic Perspectives*, 25(3): 63-82

Bianchi, Nicola and Maricela Giorcelli (2019) “Not All Management Training Is Created Equal: Evidence from the Training Within Industry Program”, UCLA mimeo http://www.giorcellimichela.com/uploads/8/3/7/0/83709646/bianchi_giorcelli_twi_draft_191111.pdf

- * Bloom, Nicholas, Ben Eifert, Abrijit Mahajan, David McKenzie and John Roberts (2013) “Does management matter? Evidence from India” *Quarterly Journal of Economics* 128 (1): 1-51. <http://www.stanford.edu/~nbloom/DMM.pdf>

Bloom, Nicholas, Abrijit Mahajan, David McKenzie and John Roberts (2019) “Do Management Interventions Last? Evidence from India”, *AEJ: Applied* 11(4) 198-219 https://nbloom.people.stanford.edu/sites/g/files/sbiybj4746/f/aeaj_applied_dml.pdf

Brooks, Wyatt, Kevin Donovan and Terence Johnson (2018) “Mentors or Teachers? Microenterprise Training in Kenya” *American Economic Journal: Applied*, 10(4) 196-221

Bruhn, Miriam, Dean Karlan and Antoinette Schoar (2018) “The Impact of Consulting Services on Small and Medium Enterprises: Evidence from a Randomized Trial in Mexico.” *Journal of Political Economy*, 126(2), 635-687 https://www.povertyactionlab.org/sites/default/files/publications/The-Impact-of-Consulting-Services-on-SME_Schoar-et-al_March2018.pdf

Fryer, Roland (2017) “Management and Student Achievement: Evidence from a Randomized Field Experiment” Harvard mimeo https://scholar.harvard.edu/files/fryer/files/mgmt_20170515_with_tables_figures.pdf

Giorcelli, Michela (2019) “The Long-Term Effects of Management and Technology Transfers” *American Economic Review*, 109(1): 1-33

Gosnell, Greer, John List and Robert Metcalfe (2020) “The Impact of Management Practices on Employee Productivity: A Field Experiment with Airline Captains” forthcoming, *Journal of Political*

Economy, 128 (4) <https://www.journals.uchicago.edu/doi/abs/10.1086/705375?af=R&mobileUi=0>
<https://www.nber.org/papers/w22316>

Huber, Kilian, Volker Lindenthal and Fabian Waldinger (2020) [Discrimination, Managers, and Firm Performance: Evidence from “Aryanizations” in Nazi Germany](#), Chicago mimeo

Iacovone, Leonardo, William Maloney and David McKenzie (2019), [Improving Management with Individual and Group-Based Consulting : Results from a Randomized Experiment in Colombia](#) *World Bank Policy Research Working Paper 885*, forthcoming *Review of Economic Studies* <http://documents.worldbank.org/curated/en/166671557929384690/Improving-Management-with-Individual-and-Group-Based-Consulting-Results-from-a-Randomized-Experiment-in-Colombia>

Ichniowski, Casey, Katheryn Shaw and Giovanna Prennushi (1997), “The Effects of Human Resource Management: A Study of Steel Finishing Lines”, *American Economic Review*, LXXXVII (3), 291-313.

Lazear, Edward (2000) “Performance Pay and Productivity” *American Economic Review*: 90:1346-61.

McKenzie, David and Christopher Woodruff (2017) “Business Practices in Small Firms in Developing Countries” *Management Science*, 63(9), 2967-2981.

Drivers of Management Practices

Bertrand, Marianne and Schoar, Antoinette (2006) “The Role of Family in Family Firms” *Journal of Economic Perspectives*, 20(2), 73-96

Bloom, Nick, Raffaella Sadun and John Van Reenen (2012) “Americans Do I.T Better: US multinationals and the productivity miracle” *American Economic Review* 102 (1), 167-201
[http://cep.lse.ac.uk/textonly/_new/staff/vanreenen/pdf/aer102\(1\).pdf](http://cep.lse.ac.uk/textonly/_new/staff/vanreenen/pdf/aer102(1).pdf)

- * Bloom, Nick, Carol Propper, Stephan Seiler and John Van Reenen (2015) “The Impact of Competition on Management Quality: Evidence from Public hospitals” *Review of Economic Studies* 82: 457-489
<http://cep.lse.ac.uk/pubs/download/dp0983.pdf>

Bloom, Nick, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten and John Van Reenen (2019), op-cit

Cai, Jong and Adam Szeidl “Interfirm Relationships and Business Performance” *Quarterly Journal of Economics*, 133 (3) 1229–1282

Linking Micro and Macro: The costs of Distortion and Discrimination

Bartelsman, Erik, Haltiwanger, John and Scarpetta, Stefano (2013) “Cross Country Differences in Productivity: The Role of Allocation and Selection” *American Economic Review*, 103(1) 305-334

Bloom, Nick, Raffaella Sadun and John Van Reenen (2017) “Management as a Technology” CEP Discussion Paper 1433 <http://cep.lse.ac.uk/pubs/download/dp1433.pdf>

- * Hsieh, Chiang-Tai and Pete Klenow (2009), “Misallocation and Manufacturing TFP in China and India”, *Quarterly Journal of Economics*, 124(4), 1403-1448

Hsieh, Chang-Tai, Erik Hurst, Charles I. Jones and Peter Klenow (2019). “The Allocation of Talent and U.S. Economic Growth” *Econometrica*, 87(5), 1439-1474

Bell, Alex, Raj Chetty, Xavier Jaravel, Neviana Petkova and John Van Reenen (2019), “Who Becomes an Inventor in America? The Importance of Exposure to Innovation” *Quarterly Journal of Economics* 134(2) 647–713

III. Organization of firms: Decentralization, Relational Contracts, Complementarities

a. Theory Revision and overview

Aghion, Philippe and Jean Tirole (1997) “Formal and Real Authority in Organizations” *Journal of Political Economy*, 105:1-29

Aghion, Philippe, Nick Bloom and John Van Reenen (2014) “Incomplete contracts and the internal organization of firms” *Journal of Law, Economics and Organization* 30(1), 37-64
<http://cep.lse.ac.uk/pubs/download/occasional/op036.pdf>

* Gibbons, Robert, Niko Matouschek and John Roberts (2013) “Decisions in Organizations” in Gibbons and Roberts op-cit.

b. Measurement

*Bloom, Nick, Raffaella Sadun and John Van Reenen (2010) “Recent Advances in the empirics of organizational economics” *Annual Review of Economics* 2:105-37
<http://cep.lse.ac.uk/pubs/download/dp0970.pdf>

Calienda, Lorenzo, Ferdinando Monte and Esteban Rossi-Hansberg (2015) “The Anatomy of French Production Hierarchies” *Journal of Political Economy*, 123:4, 809-852

Rajan, Raghuram and Julie Wulf (2006) “The Flattening Firm: Evidence from Panel Data on the Changing Nature of Corporate Hierarchies”, *Review of Economics and Statistics*, 88(4), 759-773.

Wu, Yanhui (2016) “Authority, Incentives, and Performance: Evidence from a Chinese Newspaper”, *Review of Economics and Statistics*, 2016: 99(1).

c. Uncertainty, heterogeneity, volatility

*Acemoglu, Daron, Philippe Aghion, Claire Lelarge, John Van Reenen, and Fabrizio Zilibotti (2007) “Technology, Information and the Decentralization of the Firm”, *Quarterly Journal of Economics*, 122(4), 1759–1799.

Aghion, Philippe, Nick Bloom, Brian Lucking, Raffaella Sadun and John Van Reenen (2017) “Turbulence, Firm Decentralization and Growth in Bad Times” forthcoming, *American Economic Journal: Applied* <http://cep.lse.ac.uk/pubs/download/dp1479.pdf>

d. Culture and Trust

* Bloom, Nicholas, Sadun, Raffaella and John Van Reenen. (2012). “The organization of firms across countries”, *Quarterly Journal of Economics* 127(4): 1663-1705 <https://academic.oup.com/qje/article-lookup/doi/10.1093/qje/qje029>

e. Human Capital

Blundell, Richard, David Green and Wenchao Jin (2016) “The UK Wage Premium Puzzle: How Did a Large Increase in University Graduates Leave the Education Premium Unchanged?” IFS Working Paper W16/01, <https://www.ifs.org.uk/uploads/publications/wps/WP201601.pdf>

Bresnahan, Tim, Erik Brynjolfsson and Lorin M. Hitt (2002) “Information Technology, Workplace Organization, and the Demand for Skilled Labor: Firm-Level Evidence” *Quarterly Journal of Economics*, 117(1), 339-376

Caroli, Eve and John Van Reenen (2001) “Skill biased Organisational change? Evidence from British and French establishments” *Quarterly Journal of Economics* CXVI, No. 4, 1449-1492
http://cep.lse.ac.uk/textonly/people/vanreenen/papers/oc_skills.pdf

f. Trade and Competition

Bloom, Nicholas, Sadun, Raffaella and John Van Reenen. (2010) “Does Product Market Competition Lead firms to decentralize?” *American Economic Review Papers and Proceedings* 100, 434-438

Guadalupe, Maria and Julie Wulf (2010) “The Flattening Firm and Product Market Competition: The Effect of Trade Liberalization on Corporate Hierarchies” *American Economic Journal: Applied Economics*, 2(4), 105-27

g. Information and Communication Technologies

Bloom, Nick, Luis Garicano, Raffaella Sadun and John Van Reenen (2014) “The distinct effects of Information Technology and Communication Technology on firm organization” *Management Science* 60(12) 2259-2885 <http://cep.lse.ac.uk/pubs/download/dp0927.pdf>

* Garicano, Luis (2000) “Hierarchies and the Organization of Knowledge in Production” *Journal of Political Economy*, 108(5) 874-904

Relational Contracts

*Blader, Steve, Claudine Gartenberg and Andrea Pratt (2020) “The Contingent Effect of Management Practices”, *Review of Economic Studies*, 87(2) 721-749
http://www.columbia.edu/~ap3116/papers/BGP_trucks0610.pdf, *Review of Economic Studies*

*Macchiavello, Rocco and Ameet Morjaria (2015) “The value of relationships: evidence from a supply shock to Kenyan rose exports” *American Economic Review*, 105(9) 2911-2945.

Macchiavello, Rocco and Ameet Morjaria (2017) “Competition and Relational Contracts: Evidence from Rwanda’s coffee mills” LSE mimeo,

Organizational Complementarities

Athey, Susan and Scott Stern (1998) “An Empirical Framework for Testing Theories About Complementarity” MIT mimeo <https://faculty-gsb.stanford.edu/athery/documents/testcomp0498.pdf>

Bond, Steve and John Van Reenen (2007) Chapter 65 in Heckman, J. and Leamer. E. (eds) *Handbook of Econometrics Volume 6A* (2007) 4417-4498
<http://cep.lse.ac.uk/textonly/people/vanreenen/papers/bondvanr2003.pdf>

* Brynjolfsson, Erik and Paul Milgrom (2013) “Complementarity in Organizations” in Gibbons, Robert and John Roberts (eds) *Handbook of the Economics of Organization*, Princeton: Princeton University Press

Ichniowski et al (1997) op-cit

Meagher, K. and Strachan, R. (2013) “Evidence on the Non-Linear Impact of Management” Australian National University mimeo

Milgrom, Paul and John Roberts (1990) "The Economics of Modern Manufacturing: Technology, Strategy, and Organization", *American Economic Review*, 80(3), 511–28.

IV. CEOs

Bandiera, Oriana, Stephen Hanson, Andrea Prat, and Raffaella Sadun. (2017) "CEO Behavior and Firm Performance", op-cit

Bebchuk, L. and Fried, J. (2004) *Pay without Performance: The Unfulfilled Promise of Executive Compensation*, Cambridge: Harvard University Press

Bell, Brian and John Van Reenen (2016) "CEO Pay and the Rise of Relative Performance Contracts: A Question of governance" CEP Discussion Paper No. 1436, <http://cep.lse.ac.uk/pubs/download/dp1439.pdf>

Bennedsen, Morten, Kasper Nielsen, Francisco Perez-Gonzalez and Daniel Wolfenzon (2007), "Inside the family firm: the role of families in succession decisions and performance", *Quarterly Journal of Economics*, 647-691.

Bertrand, Marianne, (2009) "CEOs", *Annual Review of Economics*, 1(1), 121-150

Bertrand, M. and Mullainathan, S. (2001) "Are CEOs rewarded for luck? The ones without principals are", *Quarterly Journal of Economics*, 116, 901-32.

Bertrand, Marianne, and Antoinette Schoar (2003) "Managing with Style: The Effect of Managers on Firm Policies." *Quarterly Journal of Economics*, 118 (4): 1169-1208.

Canyon, M., Fernandes, N., Ferreira, M., Matos, P., and Murphy, K. (2011) "The Executive Compensation Controversy: A Transatlantic Analysis", in Tito Boeri, Claudio L. and K. Murphy (eds) *Executive Remuneration and employee Performance Related Pay*, Oxford: Oxford University Press, 116-122

*Edmans, Alex and Xavier Gabaix (2016) "Executive Compensation: A Modern Primer" *Journal of Economic Literature*, 54(4), 1232-87

Gabaix, Xavier and Augustin Landier (2008) "Why Has CEO Pay increased so much?" *Quarterly Journal of Economics*, 123: 49-100.

*Garicano, Luis, Claire Lelarge and John Van Reenen (2016) "Firm Size Distortions and the Productivity Distribution: Evidence from France" <http://cep.lse.ac.uk/pubs/download/dp1128.pdf> *American Economic Review* 106(11) 3439-79

Lucas, Robert E. (1978) "On the Size Distribution of Business Firms" *Bell Journal of Economics*, 9(2), 508-523.

Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva (2014) "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities." *American Economic Journal: Policy*, 6 (1): 230-71.

V. Inequality

Facts

Autor, David (2019) "Work of the Past, Work of the Future" *American Economic Review*, 109: 1–32
<https://economics.mit.edu/files/16724>

Autor, David (2014) “Skills, education, and the rise of earnings inequality among the other 99 percent” *Science* 344(6186) 842-

Autor, David, Claudia Goldin and Larry Katz (2020) “The Race between Technology and Education Revisited”, forthcoming, *American Economic Review*

Piketty, Thomas and Emmanuel Saez (2014) “Inequality in the Long-Run” *Science* 344(6186) 838-842 <http://eml.berkeley.edu/~saez/piketty-saezScience14.pdf>

Firm effects and Rent sharing

Abowd et al (1999) op-cit

Card, David, Joerg Heining and Patrick Kline (2013) "[Workplace Heterogeneity and the Rise of West German Wage Inequality](#)," *Quarterly Journal of Economics*, 128(3), p967-1015

Card, David, Ana Rute Cardoso, Joerg Heining and Pat Kline (2018) “[Firms and Labor Market Inequality: Evidence and Some Theory](#)” *Journal of Labor Economics*, 36 S13-S70.

Card, David, Ana Cardoso, Joerg Heining and Patrick Kline (2016) [Bargaining, Sorting, and the Gender Wage Gap: Quantifying the Impact of Firms on the Relative Pay of Women](#) *Quarterly Journal of Economics*, 131(2), 633-686

Caroli, Eve and John Van Reenen (2001) op-cit

Kline, Patrick, Neviana Petkova, Heidi Williams, and Owen Zidar (2019) “[Who Profits from Patents? Rent Sharing at Innovative Firms](#)” *Quarterly Journal of Economics*, 134 1343–1404. [Corrigendum](#)

Kroft, Kory Yao Luo, Magne Mogstad Bradley Setzler (2020) “Imperfect Competition and Rents in Labor and Product Markets: The Case of the Construction Industry” NBER WP w27325

Lamadon, Thibaut, Magne Mogstad and Bradley Setzler (2019) “Imperfect Competition, Compensating Wage Differentials and Rent Sharing in the US Labor Market”, NBER WP 25954

Song, Jae, Nick Bloom, David Price, Fatih Guvenen and Til von Wachter (2019) “Firming up inequality” *Quarterly Journal of Economics* 134(1) 1–50

Van Reenen, John (1996) “The Creation and Capture of Economic Rents: Wages and Innovation in a Panel of UK Companies” *Quarterly Journal of Economics* 111(1), 195-226

Tasks, Skills and technical change

Acemoglu, Daron and Pascual Restrepo (2020) “Robots and Jobs: Evidence from US Labor Markets” *Journal of Political Economy*, 128(6), 2188-2244.

Acemoglu, Daron, and Pascual Restrepo (2018) “The Race between Man and Machine: Implications of Technology for Growth, Factor Shares, and Employment.” *American Economic Review* 108 (6): 1488–1542.

Acemoglu, Daron and David Autor (2011) “Skills, Tasks and Technologies: Implications for Employment and Earnings” *Handbook of Labor Economics* (edited by Orley Ashenfelter and David Card) <http://economics.mit.edu/files/5574>

Aghion, Philippe, Ufuk Akcigit, Antonin Bergeaud, Richard Blundell and David Hemous (2018) “Innovation and top income inequality” *Review of Economic studies* 86(1) 1 – 45,

Autor, David, David Dorn and Gordon H. Hanson (2016) “The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade” *Annual Review of Economics*, vol 8(1).

Goldin C. and Katz L. (2008) *The Race Between Education and Technology*. Harvard: Harvard University Press

Michaels, Guy, Ashwini Natraj and John Van Reenen (2014) “Has ICT Polarized Skill Demand? Evidence from Eleven Countries over 25 Years”, *Review of Economics and Statistics* (2014) 96(1) 60–77 <http://cep.lse.ac.uk/pubs/download/dp0987.pdf>

Inequality: Falling Share of Labour in GDP

Autor, David and Anna Salomons (2018) “Is Automation Labor-Displacing? Productivity Growth, Employment, and the Labor Share” *Brookings Papers on Economic Activity*, 1-63.

*Autor, David, David Dorn, Larry Katz, Christina Patterson and John Van Reenen (2020), “Superstar Firms and the Decline of Labour’s Share” <http://cep.lse.ac.uk/pubs/download/dp1482.pdf> *Quarterly Journal of Economics*, 135(2) 645-709

*De Loecker, Jan, Jan Eeckhout and Gabriel Unger (2020) “The Rise of Market Power and the Macroeconomic Implications.” *Quarterly Journal of Economics* 135 (2), 561-664 <http://www.janeeckhout.com/wp-content/uploads/RMP.pdf>

Karabarbounis, Loukas and Brent Neiman (2013) “The Global Decline of the Labor Share.” *Quarterly Journal of Economics*, 129(1), 61-103.

Karabarbounis, Loukas and Brent Neiman (2019) “Accounting for Factorless Income.” *NBER Macroeconomics Annual 2018*, 33,