

Industrial & Labor Relations Review

Volume 62, Issue 4

2009

Article 10

The Economics of Imperfect Labor Markets

Tito Boeri*

Jan van Ours†

*,
†,

fleshing out the actual workings of the different types of LMIs and, in so doing, revealing their heterogeneity. The authors also identify some important innovations these intermediaries could try to make in the services they provide (taking a bigger role in promoting labor mobility and job growth, for example) and discuss difficulties encountered by LMIs that have in fact attempted to provide new services to employees.

The authors then go beyond general descriptions of how these markets function and make a unique effort to provide a thorough quantitative analysis of the labor market effects of different LMIs by presenting empirical evidence from two original surveys. These surveys were undertaken in Milwaukee and Silicon Valley—two *a priori* very different environments, with different labor force characteristics and different industrial compositions. Examining a sample of workers from each of those two markets, the authors collected detailed information on, among other things, which type of LMI (if any) they used, their wages, their demographic characteristics, and their social networks (which can serve as an important alternative way to find jobs). They made a special effort to identify and classify different types of LMIs, in order to be able to quantify their role in the labor market.

The evidence suggests that, indeed, these intermediaries are not all the same. In particular, the use of temporary help agencies to find a job is apparently correlated with lower hourly wages and benefits (relative to no LMI use); the use of private placement agencies is correlated with higher wages; and no wage effect is found for the use of other LMIs. That the authors are on to some real economic relationships is suggested by the further finding that these patterns are observed fairly consistently across the two regions.

The book also presents interesting findings related to social capital. Workers can find jobs through formal LMIs or through informal networks of friends, family, or colleagues. Workers' survey responses to questions regarding the use of these alternative methods suggest that the more important the social network being used, the less likely a worker is to use temporary and permanent placement agencies; but there is no statistically significant relationship between the strength of the social network and the use of other types of LMIs. The authors also describe several other interesting correlations revealed by their data, such as differential use of certain LMIs by different race groups.

Unfortunately, the use of this unique and very detailed dataset, a resource that enables the authors to distinguish between different types of LMIs, comes at a cost. Specifically, since these

data cover only a cross-section of workers in two particular regions at a given point in time, we cannot tell if the observed correlations would hold in another macroeconomic environment, or if, on the contrary, they are driven by some unobserved characteristics of these workers. Generally speaking, the survey does not lend itself in any way to causal interpretation. The authors are aware of this and very upfront about it, they are careful to caution against over-generalizing their findings, and they convincingly shore up the credibility of those findings by citing similar results from previous studies that used data not subject to the same limitations. However, this shortcoming of the study's design does limit the degree to which one can infer policy consequences from the results.

That said, the richness of the data serves to illustrate the diversity of LMIs, which, in my view, is the strongest lesson to take from the analysis. One needs to distinguish carefully between the roles of temporary help agencies and unions, of community colleges and headhunters. The sample sizes are too small to allow definitive conclusions, but the authors point to important issues for future research and help us frame the questions that need answering in this literature: Why does temporary help agency use come with a wage penalty? What is the role played by other types of LMIs that do not seem to have any wage effects? And beyond the effect for employees, what is the profitability effect for firms employing those workers, and for the LMIs themselves? *Staircases or Treadmills?* lays the groundwork for the study of these issues, highlights their economic and social importance, and significantly improves our understanding of how labor market intermediaries work.

Maria Guadalupe

Associate Professor
Columbia Business School

The Economics of Imperfect Labor Markets. By Tito Boeri and Jan van Ours. Princeton: Princeton University Press, 2008. 319 pp. ISBN 978-0-691-12449-0, \$49.50 (paper).

The Economics of Imperfect Labor Markets is a wonderful new textbook on how institutions and public policies influence labor market outcomes. The title may, in fact, be a little misleading: this is not a book about the economic theory behind the operation of markets in the presence of imperfect competition, information asymmetries, and other deviations from perfect markets. That book would

not be as interesting as this one. Tito Boeri and Jan van Ours examine, rather, the controversies, theory, and evidence regarding many of the institutions and policies that make labor markets important for individual well-being and interesting for students and scholars to study.

An introductory chapter reviews the standard labor supply model and derives a worker's reservation wage in an unrestricted model and in the presence of hours-of-work restrictions. This is followed by a short discussion of labor demand and market equilibrium, and a categorization of institutions and policies that affect either quantities (for example, hours worked) or prices (for example, wages). Instructors who read this chapter will get a good sense of the style and difficulty level of the book (a point I return to below).

The meat of the book is Chapters 2 through 12, each of which is devoted to a particular policy or institution in the labor market, including the minimum wage, unions and collective bargaining, payroll taxation, regulation of working hours, retirement programs, family policies, education and training, migration policies, employment protection, unemployment benefits, and active labor market policies. Most major institutions and policies are covered (one notable omission being policies regarding employee benefits, especially health insurance). Each chapter begins with a section called "Measures and Cross-Country Comparisons" that discusses any interesting measurement issues—such as how unionization is measured when some people are members of a union while others work in jobs covered by union contracts but are not members themselves—and presents comparative data from OECD countries to give the reader a sense of how policies or labor market conditions vary across countries.

The bulk of each chapter consists of a theory section, a section on empirical evidence, and a section detailing two relevant policy issues. The chapter on minimum wages is typical. It first provides a good overview of how a minimum wage influences labor market outcomes in a competitive market and in a market where firms have monopsony power. The section on empirical work introduces readers to studies that use firm-level data, individual data, and natural experiments. Finally, the chapter discusses whether minimum wages should be reduced or increased, and whether the minimum wage is an effective means to reduce poverty and earnings inequality. There are pointers to further reading and review questions.

The book is aimed at undergraduates, but like most good textbooks it would be a useful resource for graduate students and professionals. Students using this book should already be familiar with

indifference curves and other material that is commonly covered in an intermediate microeconomics course. Most of the use of calculus is confined to technical appendices at the ends of the chapters, though some of the terminology in the main text may be unfamiliar to students without calculus experience. The book has an accompanying website with lecture slides and datasets used in a few papers highlighted in the text.

There are other good labor economics textbooks on the market, and so it is worth noting some of the main differences between this book and others in common use in the United States. In my experience, some students go through their intermediate microeconomics course with a focus on understanding models, but have lost sight of how economics can be a useful tool to understand individual well-being. This book brings students back to reality, so to speak, by focusing on public policies to a greater extent than other books do. Second, the authors focus on comparisons of economic performance and policies across most OECD countries. I found this aspect especially interesting and novel.

The inevitable downside of the wide breadth of coverage in this book is that most topics are not covered in a great deal of depth. For example, the chapter on pensions and retirement briefly mentions the differences between defined benefit and defined contribution pensions, but does not go into any detail about the relative merits of each, important policy issues, or the role of annuities in retirement planning. A professor who would like to spend more time developing each topic will have ample room to go beyond what is in the text. This is especially true for instructors who would like to cover econometric issues in more detail.

I do have a few minor quibbles with the text. In a handful of cases, the authors favor brevity at the expense of detail. For example, the discussion of the effects of parental leave legislation correctly notes that the policy will tend to shift out the labor supply curve and also shift down the labor demand curve, thereby reducing equilibrium wages. The authors then note that the policy may lead to a small increase in employment. This prediction is highly sensitive to the degree to which labor supply increases. In fact, if individuals derive little advantage from the availability of leave, but the provision of this benefit is still costly for employers, employment will fall. If individuals value the leave at the cost firms bear in providing it, wages will fall but total compensation (wages plus the value of benefits) will not change.

The authors' choice to begin each chapter with a discussion of data is a good idea. Sometimes, however, the data are presented without any

explanation. For example, a table shows a wide variation in employment rates among women with and without children across countries. But there is no discussion about what causes these differences or what lessons the reader is supposed to draw from the data.

This is a comprehensive, well-written book. It covers a wide variety of topics differently from most other textbooks. Instructors who want to focus their class on institutions and public policies, or on international comparisons, will especially appreciate this new book.

Darren Lubotsky

Associate Professor
University of Illinois at
Urbana-Champaign

Human Resources, Management, and Personnel

Striking a Balance: Work, Family, Life. By Robert W. Drago. Boston: Dollars & Sense, 2007. 183 pp. ISBN 978-1-878585-62-2, \$18.95 (paper).

This analytical and yet also lively and provocative book by Robert Drago, Professor of Labor Studies and Women's Studies at Penn State University, should appeal across several audiences. *Striking a Balance* achieves its own careful balance of academic research, practical work-life strategies for employers and communities, public policy advocacy, and personal reflection. The research underpinning this effort reflects the diverse knowledge and experience of an author who began as a labor economist but became a leading analyst in the emerging field of work-life, bridging the array of disciplines that comprise what Kathleen Christiansen refers to as the field known best for its hyphen.

In the most recent General Social Survey, employed individuals are asked, "How often do demands of job interfere with family life?" About half of salaried workers report "often" or "sometimes," and fewer than one in five of them say "never." Thus, the glass being observed in the book is at least half empty. Notably, however, as many as one in three workers paid hourly say "never." How can it be that work-family conflict appears to be more prevalent for workers in the very salaried positions, often considered to be "good" jobs, with greater access to work-life support practices in organizations and federal and state policy supports? Drago's book systemically addresses such paradoxes. It explicates the un-

derlying conflict—between three *norms* that are largely irreconcilable—that create three "gaps." It also paves a safe way for researchers to adopt the basic features of the Becker model of time use—paid work, unpaid work, and leisure time—without conforming to its troubling assumptions that households are able to choose their own allocation of time and optimize their overall well-being. Drago shows that households face not only time and money constraints, but also institutional constraints far outside their control, some of which may be subtle and even subconscious.

The first of seven chapters sets out the book's themes. It defines the concept of "balance." This may be almost as difficult for the analyst to describe as it is elusive for working people to attain. The work-life field still gropes for the most accurate term. To the extent that work threatens balance, it is considered conflict, interference, strain, or overload. To the extent that work and life may be combined in such a way that one does not necessarily diminish the other, it is considered integration, facilitation, or satisfaction, or even enrichment or enhancement. To the economics-trained, balance might be thought of as an "equilibrium," where moving more in one direction or the other would leave an individual worse off. To other social sciences, balance may refer to minimized role conflicts, which may be time-based, strain-based, or behavior-based types of conflicts.

But Drago's purpose is broader-minded. Imbalance is more than just personal, it is social. Ultimately, its consequences may be traced to three persistent "gaps." The first is the "care gap," referring to the shortfall of care-giving for family members. Half of those needing it do not receive adequate care in the United States. The second is the "gender gap," which here refers less to the male/female difference in pay than to the earnings differential between mothers who engage in professional-managerial careers and those who, as unpaid (or underpaid) workers, provide direct care to their own children or relatives. Third is the well-known "income gap," which Drago considers the disparities between high-, middle-, and low-income families.

The core argument is that these gaps will persist as long as three norms prevail. First, the ideal worker norm, internalized mainly among professionals and managers, is the belief that career success requires total commitment of time, energy, and self-identity to work. This has been increasingly reinforced by high rewards to its display, contributing to the "income gap." The second powerful norm is that of "motherhood"—the belief, whether internalized or externally imposed, that women are first and foremost mothers with a