12-2007

[Review of *Personnel Economics in Imperfect Labour Markets*]

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[Review of Personnel Economics in Imperfect Labour Markets]

Abstract
Excerpt] This book is an attempt to consolidate what we know about Personnel Economics by focusing on Personnel Economics in Imperfect Labor Markets. Even on the first page of the book, the author is clear about this mission. In particular he notes that "The view of personnel economics analyzed in this book is based on two key properties of... labour markets: labour markets are imperfect and jobs are associated to [sic] rents; labour market institutions interact with personnel policies. Notably, wages are partly set outside the firm-worker pair (minimum wages and collective agreements are widespread)" and "job termination policies are affected by a sizeable and binding employment protection legislation." This is a worthy goal and the idea for writing a book that focuses on imperfect labor markets is a very good one.

Keywords
labor markets, personnel economics, human resources, wages

Disciplines
Human Resources Management | Labor Economics | Labor Relations

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...have some promise inside urban areas such as New York, where traffic congestion and high gas prices might encourage alternative transportation solutions. However, higher gas taxes might not be effective in our broader transportation zone, as they might actually reduce social welfare. Winston concludes that the exception of BART in the San Francisco Bay Area and the United Parcel Service in San Francisco illustrates the importance of relying on ideology, Winston's book provides a sounder guidance for structuring government interventions constitutes a substantial...
European Union. The second chapter, “The Optimal Skill Ratio,” discusses two main issues: the hours/employment trade-off and the skill composition of the labor force. This introduces ideas of isocost lines and isoquant curves and a bit of calculus. It also describes the idea of wage compression and introduces some data across five countries. Chapter 3, “The Hours-Employment Tradeoff,” includes a detailed discussion of the difference between variable and fixed costs and derives a formal solution to the employment-hours trade-off. It goes on to show, from a theoretical point of view, what might happen in the presence of an overtime premium and the potential effects of reducing the workweek. The chapter ends with a nice discussion of the reduction of the workweek in France in 1982.

Chapter 4, “Temporary or Permanent?,” is a discussion of trade-offs between open-ended and fixed-term contracts. In particular, the chapter examines three separate issues. First is firm choice of either temporary or permanent contracts. Second is combining temporary and permanent contracts. Finally, the author examines hiring a temporary worker and using a temporary help firm as an intermediary. The chapter ends with some data from the OECD on the incidence of temporary workers by country over time. In chapter 5, “Selection in Recruiting,” the author discusses contingent contracts, signaling, and the simple schooling model.

The next three chapters concern compensation. Chapter 6 is titled “Optimal Compensation Schemes: Foundation.” This chapter introduces concepts of indifference curves and examines a simple principal-agent model, makes comparisons between risk-neutral and risk-averse agents, and sets the groundwork for subsequent chapters. In chapter 7, “Pay for Performance with Wage Constraints,” the author introduces the idea of workers with heterogeneous abilities. This chapter also describes performance pay with a two-tiered wage system and Edward P. Lazear’s (2000) Safelite Glass example of one firm switching from salaries to piece rates. The third compensation chapter (chapter 8), “Relative Compensation and Efficiency Wage,” introduces additional ideas such as tournament theory and efficiency wages.

Chapters 9 and 10 focus on training. Chapter 9, “Training and Human Capital Investment,” introduces the ideas of benefits and costs of education,discounting, and general versus specific capital. Chapter 10, “Training Investment in Imperfect Labor Markets,” builds on chapter 9 by considering firm-sponsored training with specific focus on the temporary help industry.

In “Job Destruction” (chapter 11), the author covers issues of “firm-initiated” separations (including a discussion of wage cuts), imperfect labor markets, labor hoarding, and the effects of “firing taxes.” Chapter 12, “Further Issues in Employment Protection Legislation,” examines employment protection legislation including taxes and transfers. The book concludes with a chapter on “Teams and Group Incentives.” This includes a discussion of the “one over N problem,” remedies for compensating teams, and an example from a firm called Koret, in the garment manufacturing industry that changed its compensation scheme from individual piece rates to group piece rates. This is based on a paper by Barton H. Hamilton, Jack A. Nickerson, and Hideo Owan (2003).

If this were the only book that a newcomer to the field were to read about Personnel Economics, there is quite a lot of value added within the pages. However, there are a number of things that surprised me about the book. I expected the book to cover more new ground. There is quite a bit of overlap with Lazear (1995), Lazear (1998), and a set of undergraduate labor economics textbooks such as Ronald G. Ehrenberg and Robert S. Smith (2006) and George Borjas (2004). Garibaldis book seems written on roughly the same level as the others. It uses some calculus and is more theoretical than Lazear (1998), Ehrenberg and Smith (2006), or Borjas (2004), although it is less technical than Lazear (1995). It is also written from a European perspective, and it is this last bit that sets it apart most.

The book reads less like a book than like an effective set of (mostly) independent lectures. There are few transitions between chapters. A particularly stark example of this occurs at the start of chapter 11 (p. 187). After just having completed a discussion of training in imperfect labor markets, the author jumps straight into a chapter on “Job Destruction.” Both subjects are important and worthy of discussion. However, a connection between these chapters would improve the book. There are few individual conclusions to chapters, many of which end quite abruptly. The book also lacks to tie everything together.

Given the title of the book I was expecting more of a labor markets. Chapter 1 ni the potential imperfections such as minimum wage legi and employment purpose, I expected to see a re flection details.” In fact, an although nicely done, v Personnel Economics in p The main chapters on or largely standard discussions personnel. This is also true training and human capital: While the book does a fi retical ideas, I expected examples. Some of those e (2000) classic on Safelite There are other places w have benefited from a mo of well-known literature. I ter 5 during the discussion signaling models of educe the empirical literature in been mentioned (e.g., The Gary Solon 1987 and Kr Kropp 1986).

I also thought that most be improved by more cited 11, “Job Destruction,” is that it has many nice c appears in chapter 1 durin minimum wage (p. 6) as a the labor market. There is the vast literature on Another example appears naments (pp. 133–51), wh to two classics in the field (Rosen 1981 and Rosen 15 instances, even when sp discussed, the proper ci provided. One example Safelite Glass (pp. 121–2; is listed in the footnotes i as far as I know, in the tex discussion of teams in t (pp. 223–31). Hamilton, (2003) is listed in the refe this paper is never ment
Investment in Imperfect Labor Markets is not perfect. I think it could use more careful editing, more examples, more emphasis on imperfections in the labor market, more transitions and better writing, and more institutional detail. On the other hand, it is an up-to-date introduction to Personnel Economics and is a useful introduction to many of the main ideas in the field. Those interested in moving into or learning about Personnel Economics should add it to their reading list.
REFERENCES


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