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[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

**Comments**

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book, Winston flags policy ible solutions, and gives a nt literature, but does not policy areas fully. The book iger than depth on particular ume delivers an incredible vignettes but is not a substi- th analysis of the particular ers will be rewarded with an interesting economic results. e exception of BART in the rea, Winston concludes that stem actually reduced social surprising is his critique of ice, although the extent to Ace is inefficient or is being by cream-skimming by United Parcel Service is not 2 context of this relatively ake of this rather daunting failures? Clifford Winston stories and explores the role hat I found to be particular-able that compiled the well failure policies. By giving cross different areas of gov-1, we can get a sense of what d where we should put our of policy reform. Although mates are gross costs, often res are not readily available, ures are deadweight losses. pport programs, tariffs and pricing and investment in ient pricing and investment e quite staggering losses on excess of $10 billion each. ve analysis also emphasizes than these multi-billion dol- his concerns about govern- of fundamental policy cause government efforts to es comprise a major portion

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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 imper-fect and jobs are associated to [sic] rents; labour market institutions interact with personnel polici-ies. 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.

The book contains thirteen chapters. In the first, “Personnel Economics and Non-Competitive Labour Markets,” the author outlines the book by nicely describing that market imperfections create some interesting complications in per-sonnel economics that are absent in perfect labor markets. This includes some motivation with basic statistics from the OECD on differences in union density and employment protection legislation in a set of six countries and the
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 F. 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). Garibaldi's 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 legislation and employment protection that the author is employee. I expected to see a section details." In fact, although nicely done, Personnel Economics in p. 1. The main chapters on craft largely standard discussions personnel. This is also true for teaching and human capital.

While the book does a fine job of introducing ideas, I expected more examples. Some of those are (2000) classic on Safelite There are other places w have benefited from a broader set of well-known literature. Chapter 5 during the discussion on signaling models of education the empirical literature in been mentioned (e.g., Gary Solon 1987 and K Krupp 1986).

I also thought that most improvement would come from chapter 11, "Job Destruction," is that it has many nice features in chapter 1 durin minimum wage (p. 6) as a the labor market. There is the vast literature on Another example appears in chapter 5 on wage discrimination (pp. 133-51), which to two classics in the field Rosen 1981 and Rosen 15 instances, even when speaking the proper ci provided. One example Safelite Glass (pp. 121-2) is listed in the footnotes as far as I know, in the tex discussion of teams in t (pp. 223-31). Hamilton, (2003) is listed in the ref this paper is never ment
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Abruptly. The book also lacks a concluding section to tie everything together.

Given the title of the book and its introduction, I was expecting more of a focus on imperfect labor markets. Chapter 1 nicely outlines some of the potential imperfections in the labor market, such as minimum wage legislation, union density, and employment protection legislation. Given that the author is employed by a European university, I expected to see a steady diet of "imperfection details." In fact, many of the chapters, although nicely done, were largely about Personnel Economics in perfect labor markets. The main chapters on compensation (6-8) are largely standard discussions of the economics of personnel. This is also true of the first chapter on training and human capital investment. While the book does a fine job covering theoretical ideas, I expected more new empirical examples. Some of those examples, e.g., Lazear's (2000) classic on Safelite Glass, are very good. There are other places where the text would have benefited from a more detailed discussion of well-known literature. For example, in chapter 5 during the discussion of productivity versus signaling models of education (p. 80), some of the empirical literature in this area could have been mentioned (e.g., Thomas Hungerford and Gary Solon 1987 and Kevin Lang and David Kröpp 1986).

I also thought that most of the chapters would be improved by more citations, although chapter 11, "Job Destruction," is a counterexample in that it has many nice citations. An example appears in chapter 1 during the discussion of the minimum wage (p. 6) as a classic imperfection in the labor market. There is not a single citation to the vast literature on the minimum wage. Another example appears in the section on tournaments (pp. 133-51), where there is no citation to two classics in the field (Lazear and Sherwin Rosen 1981 and Rosen 1986). Further, in several instances, even when specific previous work is discussed, the proper citations are not always provided. One example is in the discussion of Safelite Glass (pp. 121-22) where Lazear (2000) is listed in the footnotes to two tables but never, as far as I know, in the text. This is also true in the discussion of teams in the Koret garment case (pp. 223-31). Hamilton, Nickerson, and Owian (2003) is listed in the references on page 243, but this paper is never mentioned in the text, even though the author devotes nine pages to the paper. In a discussion of nonrecurring fixed costs, we are told "The best estimate of these costs is the one obtained with Israeli data, and shows that the typical hiring costs is approximately two weeks of paid salary" (p. 28). This is a perfect spot for a citation, though none is provided.

I thought the book could have profited from some careful editing. This never really made any of the arguments incorrect, but it was frustrating. An example occurs on page 2 where we are told "sections 1.2 and 1.3 briefly discuss the nature of the labor market institutions." In fact, this discussion appears not in sections 1.2 and 1.3 but in sections 1.3 and 1.4. Another example occurs on page 20 where the author refers to the "top panel" of figure 2.4. In fact, there is no top panel but only right and left panels. Other examples include things like "We now analyze in some details the idea..." (p. 74) or "which we assume to be described by this simply relationships" (p. 75). In the description of wage compression, there is a nice table detailing "wage productivity premia in different countries" (p. 21). However, the author provides neither the data source nor the years. There are also a few instances where, instead of writing "chapter" or "book" the word "report" (p. 203) appears, as if these chapters have been cobbled together from other sources. Hamilton, Nickerson, and Owian (2003) is listed in the references under the first author's first name "Barton," instead of his last. George Baker is listed as the only author of the well-known Baker, Michael Gibbs, and Bengt Holmstrom (1994) paper on page 242. The preface (p. ix) claims there are fourteen chapters and there are only thirteen! These and related problems may have occurred between writing and printing the book but could have been easily avoided with a careful reading.

Personnel Economics 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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resources that are distributed among individuals’ well-being and their attitudes. Whereas the

earlier work on long-term outcomes of World War II veterans focused on their economic

outcomes, Mettler's work provides a comprehensive look at how the G.I. Bill influenced the civic engagement of this generation. She conducts in-depth interviews with veterans and examines the impact of the bill on a range of outcomes, including educational attainment, labor market outcomes, and civic involvement.

One of the key findings of Mettler's work is that the G.I. Bill had a lasting impact on the civic engagement of World War II veterans. Many of the veterans she interviewed describe how the bill helped them become more involved in civic life. They were more likely to participate in political activities, volunteer in the community, and engage in other forms of civic involvement. The G.I. Bill helped to shape a generation that was committed to the public good and to the idea that the country could be a successful democracy if people were involved in civic life.

The book begins with an overview of the G.I. Bill, which was enacted in 1944 to provide educational benefits to veterans of World War II. The bill funded educational assistance to all returning veterans who had served at least 90 days in the armed forces. Veterans were eligible for up to four years of benefits, and the program was much more generous than anything that had come before. Mettler argues that the bill had a profound impact on the lives of many of the generation of Americans born in the years immediately after World War II.