Cornell University
ILR School

Industrial & Labor Relations Review

Volume 60 | Number 1 Article 84

2006

Personnel Economics in Imperfect Labour Markets

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immigrant workers alike can ensure higher levels of skill formation and greater coordination in the supply of and demand for labor.

There is much to be admired in this volume. Masters of their subject, the authors present a compelling case. However, less than obeisant readers may feel unease with some of their historical interpretations and have difficulty judging their critiques of policy. What are the alternative explanations? How has the growth of human capital affected and been affected by employment law? The authors miss opportunities to present international comparisons at many junctures in the volume. Is their portrait of employment law (and specifically the emphasis on collective bargaining) specific to Britain? The book is strongest when the authors step outside Britain, as in their illuminating discussion of the adoption by different countries of the European Union's directives on working time.

These are minor shortcomings. This volume will find many readers among students of British labor markets, past and present.

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Labor Economics

Personnel Economics in Imperfect Labour Markets. By Pietro Garibaldi. New York: Oxford University Press, 2006. xvii, 258 pp. ISBN 0-19-928066-5, $50.00 (cloth).

This book covers selected topics in personnel economics, including the problem of choosing the optimal skill mix of workers in the firm, the hours-employment trade-off, the question of whether to hire temporary or permanent workers, managing adverse selection in recruiting workers, optimal compensation schemes, performance pay with wage constraints, relative compensation and efficiency wages, training and human capital investment, job destruction, employment protection legislation, and teams and group incentives. In addition to scholars in the field, the audiences targeted include students in undergraduate personnel economics courses, in business school programs, and in traditional labor economics courses taught in Europe, where the labor market imperfections on which the book focuses are particularly relevant.

What distinguishes this book from others in personnel economics (most notably Edward Lazear's *Personnel Economics* [1995] and *Personnel Economics for Managers* [1998]) is its focus on labor market imperfections such as employment protection legislation, wage compression, and wage rigidities induced by minimum wages or collective bargaining. Garibaldi is correct in his observation that discussions in personnel economics frequently assume perfectly competitive labor markets. An investigation of how these theories change in the face of labor market imperfections is interesting and important. I found the discussion most engaging when it focused clearly on the role of labor market imperfections, as in the chapters on job destruction, employment protection legislation, training investments in imperfect labor markets, and the question of whether to hire temporary or permanent labor. These chapters are useful contributions and are not covered in Lazear's earlier textbooks. However, I think Garibaldi follows the model set by Lazear more closely than necessary, both in the selection of topics and in their treatment. For example, while any text in personnel economics must cover incentive pay, Garibaldi devotes a detailed seven-page discussion to the Safelite Glass case, which was the centerpiece of the corresponding discussions by Lazear.

While the role of imperfect labor markets makes for a very interesting theme, the book does not go as far as it could in advancing this main theme and sustaining it consistently. For example, consider the five case studies that Garibaldi touts as a distinctive feature of the book: changes in overtime regulation in France in 1982, the introduction of incentive pay at Safelite Glass Corporation, the role of the temporary help industry in the provision of training, relative performance pay in the context of broiler chicken production, and the effect on productivity of the introduction of team production in a garment manufacturing plant in the Napa Valley. Three of these cases do not concern issues of labor market imperfection, and four are based on data from the United States, where we would not expect issues of labor market imperfection to be particularly relevant. Furthermore, whereas in certain chapters (such as those on employment protection legislation and job destruction) the theme is highly visible and is the center of attention, in others (such as those on recruiting and team production) it is completely absent. This asymmetry is largely a function of the subject matter. Some decisions of the firm (those involving compensation, training, and layoffs, for example) are obviously strongly influenced by labor market imperfections. For other decisions of the firm (such as those involving job design and whether to use individual or team production), it is less clear how or if these imperfections matter. Garibaldi has heightened the reader's sensitivity to the potential importance of labor market imperfections, but at the same time he is not always clear in identifying where they matter and where they do not. When they are not mentioned, the reader is left wondering whether it is an oversight or whether the issues at hand do not depend on whether labor markets are perfect or imperfect.

Most of the text is concerned with explaining models and intuition and describing empirical studies. Garibaldi does a good job of this, and the exposition is well organized and clear. At the same time, I think the text would have been even more engaging if the author had made his opinions and perspectives more visible. For instance, Garibaldi could have offered his own critical evaluation of the various research studies rather than simply laying out their methodologies and conclusions.

While the text incorporates some numerical examples that are pedagogically useful, it does not always make clear which results are driven by particular assumptions and which are more robust. This issue is perhaps most noticeable in the discussion of incentive pay, where, for example, the utility function is specified with a quadratic effort cost function. Nowhere is it mentioned that the key results concerning the optimal piece rate do not depend on this particular functional form but only on the strict convexity of the effort cost function. Other results are in fact driven by particular assumptions, and the reader is not always alerted to this. For example, on page 99 we see the following seemingly general claim: "When non-negative payments are ruled out, the optimal commission scheme is the 50 per cent commission rate." This dictum is recapitulated on the opening page of Chapter 7 in the context of a general discussion: "The previous chapter has shown that the optimal franchising contract turns into a 50 per cent commission rate as soon as negative payments are not allowed." Students will, I hope, be surprised to see an exact number like "50 percent" appearing in a general result on incentive pay!

I found the discussion of incentive pay somewhat misleading in another respect, since it seems to suggest that a law or custom prohibiting workers from "buying a job" from the firm will reduce profits. I think Garibaldi overstates the significance of such constraints, as in the following comment on the optimal piece rate with risk-neutral principal and agent: "Yet, we know that such a scheme is hardly attainable in real life labour markets, since it requires the worker to pay for the job" (p. 107). In fact, a simple draw scheme eliminates this problem. A draw scheme compensates a worker by the piece only for units of output produced beyond some threshold (that is, the wage contract is piecewise linear rather than linear), so that the worker implicitly pays the firm for the job. Such schemes are often observed in practice and yield the same first-best allocation as the optimal piece rate even though the worker does not explicitly pay the firm for the job.

I also think that the discussion of incentive contracts could have benefited from closer examination of two subjects. First, Garibaldi says little about problems with piece rate pay. Although he briefly mentions the issues of risk and output measurability, there is no discussion of quality control until the few sentences at the bottom of page 127. Second, and very important, the book gives short shrift to multi-tasking, which has been central to discussions of agency theory in recent years. The broad point is that the reader leaves this discussion with an inadequate appreciation for the downside to pay-for-performance schemes.

Overall, I believe this text is a valuable contribution to the pedagogical literature in personnel economics. It could make an effective text for a course focusing on personnel economics in imperfect labor markets or as a supplementary text in a more general course in labor or personnel economics. The book will also be of value to anyone with a research interest in personnel economics in imperfect labor markets.

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Historical Studies

The Face of Decline: The Pennsylvania Anthracite Region in the Twentieth Century. By Thomas Dublin and Walter Licht. Ithaca, N.Y.: ILR Press (an imprint of Cornell University Press), 2005. 277 pp. ISBN 0-8014-3469-6, $65.00 (cloth); 0-8014-8473-1, $24.95 (paper).

The authors of this work need no introduction to labor historians. Both writers are well known for their imaginative, carefully researched studies of labor markets and, especially, the social relations of labor markets, and the present study is in that tradition. The book contains an introduction, eight chapters, and eight appendices, along with a stunning bibliography. It can be seen as the