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Personnel Economics in Imperfect Labour Markets. By Pietro Garibaldi. Oxford and New York: Oxford University Press, 2006. Pp. xvii, 258. $99.00, cloth; $45.00, paper. ISBN 0–19–928066–5, cloth; 0–19–928067–3, pbk.

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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 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.

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 personnel 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 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). 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 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, chapter 9.

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 Kropp 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 Owan (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 cost 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 Owan (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.

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