Incentives, Cooperation and Risk Sharing: Economic and Psychological Perspectives on Employment Contracts. Edited by Haig R. Nalbantian. Totowa, N.J.: Rowman & Littlefield, 1987. xvi, 239 pp.

A recent Industrial Relations Research Association volume paper that George Milkovich and I co-authored concluded that although various theories exist about the effects of compensation policies and why these policies might vary across firms, there is little empirical evidence either on the determinants of compensation policies or on whether these policies have desired incentive effects at the individual, corporate, or macroeconomic level. In the last few years, however, compensation policies and their effects have begun to attract the attention of many industrial relations researchers, and a forthcoming special issue of the *Industrial and Labor Relations Review* will be devoted to this topic.

The current volume, which grew out of a two-day conference held at New York University in 1984, is an excellent introduction to compensation policy research and practice. A unique aspect of the volume is its interdisciplinary orientation; the contributors include academic economists and industrial psychologists, as well as practicing compensation and personnel and human resource specialists. A very readable introductory essay by the editor provides general discussion of analytical issues in compensation policy research and whets the reader's appetite for the papers that follow.

The volume is divided neatly into four parts. In the first, nontechnical discussions of economic models of incentives and risk sharing and of supervision are presented by Joseph Stiglitz and Guillermo Calvo, respectively. Both authors provide excellent summaries of the literature and trace the implications of their respective models for firms' compensation policies. A paper by Edward Lawler III also appears in this section and deals with conceptual issues relating to pay systems from the perspective of an industrial psychologist.

The second part of the book summarizes what we know about the effects of incentive systems. Richard Guzzo and Raymond Katzell review research by psychologists, and John Kendrick reviews research on profit-sharing and gain-sharing. Although these two chapters introduce the reader to the literature, they unfortunately are quite uncritical and fail to point out substantial methodological weaknesses in many of the reviewed studies. Andrew Weiss reports some of his own research on the effects of individual wage incentives, group incentives, and seniority-based incentive systems in the section's third paper. The section concludes with a reprinted paper by practitioners Jude Rich and John Larson that discusses why some long-term executive incentive compensation systems fail to have intended effects.

The third part of the book examines issues in the design of incentive compensation systems. A paper by a practitioner (Sarah Armstrong) dealing with the actual experiences of one large firm is usefully paired with a nontechnical paper by an economic theorist (Bengt Holmstrom) that deals with the design of executive compensation systems from a theoretical perspective.

The volume's final section focuses on macroeconomic issues. Economists John Taylor, Martin Weitzman, and Clive Bull deal, respectively, with the structure of labor contracts in the United States, macroeconomic aspects of profit sharing, and evidence of the current flexibility of wages over the business cycle.

Incentives, Cooperation and Risk Sharing should be of interest to a wide spectrum of the *ILR Review*'s readers. It is an excellent introduction to issues relating to incentive effects of compensation systems, and the editor and authors obviously have gone to great lengths to make it very accessible to nonspecialists. In spite of the shortcomings I have noted in a few of its essays, it is well worth reading.

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