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Pierre Cahuc, Stephane Carcillo, Andre Zylberberg. Labor Economics.

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The second edition of a comprehensive monography Labor Economics is here right 10 years after the first one. One thousand pages offer the economic theory, figures, formal mathematic description of economic relations and a rich empirical material describing functioning of labour markets, using data mainly from the USA and OECD member states. The mathematic methods and econometric models made a significant progress in the last decade and take a prominent place in academic publication about labour markets. The new edition of this book presents the newest methods in this style and is able to become a practical guideline how to use them in the labour market research. Compared to the first edition, more space is dedicated to public policy analysis and decisions of politicians about measures intervening into the labour markets. The new chapters are devoted to wage inequalities, income redistribution and protection of employees against the risks on the labour market. The analysis of technological changes and globalisation process impact on the labour market is in an intensive connection therewith.

Each chapter is ended by a final conclusion, list of books for further reading, and a reference list. The appendixes at the conclusion of the chapters include formal inscription of relations, mathematic formulas and mathematic proofs. The authors recommend different portfolios of selected chapters according to the level of complexity as a textbook for bachelor, master and doctoral students.

The book is divided into four parts and fourteen Chapters altogether followed by four separate mathematical appendixes, developing the topics of appendixes following the chapters. The first part is about supply and demand on the labour market and their mutual interaction on the competitive market. These interactions generate equilibrium wage and equilibrium employment. It shows how the mechanism of competition motivates the interested persons to invest into education and work preparation. The first part is divided into four chapters. The first chapter goes out of the fundamental neoclassical model of decisions between consumption and leisure time, and leads to the explanation how the individual labour supply is created with the informative value for fluctuation in participation rate for different population categories. It includes also the model of creation of labour supply with household production and the model of labour supply in the entire life cycle. It takes note of the participation of women on the labour market and discusses

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their part-time work. It contains the introduction into the econometrics of labour supply and identifies various concepts of labour supply elasticity (Frischian, Hicksian and Marshallian elasticities). The authors *e.g.* state that the rising participation of women on the labour market and also their economic independence on men and orientation on their own work careers, their labour supply becomes steeper and its shape become similar to the labour supply of men and: "...this difference diminishes over time" (p. 59). According to the authors, women have in general more elastic labour supply than men, married women in particular: "...over the two decades, married women's labour supply slope became steeper, ..., and less responsive to their husband's wages," and further conclude: "...this trend also means that public policies aimed at increasing further the labour supply of women will be less effective in the future" (p. 56).

The second chapter is devoted to labour demand; it presents firstly static and then dynamical view of it. It deals with production factors costs and possibilities of labour and capital substitution. The third chapter looks at the labour market competition equilibrium, which enables to predict the reactions of wage and employment after supply and demand shocks. It discusses the demand elasticity and compensating wage differentials. The last fourth chapter is about the human capital. It analyses the individual choice regarding the size of the investment into human capital. It explains the economic role of education, which transforms knowledge into labour productivity and earnings on the labour market. It includes the model of signalling theory.

The second part includes also four chapters, devoted to imperfect competition on the labour markets. It analyses the process of job searching. It shows how the job searching costs and asymmetric information influences the behaviour of employers and employees. It analyses the role of trade unions and collective bargaining in wage determination. It includes discrimination as one of the factors influencing wages and employment of men and women.

The fifth chapters describes the process of job searching with costs which are above zero. It explains the fundamental model and its extensive variants. The job search model basically shows how the duration of unemployment depends on the growing costs of labour, on the characteristics of unemployed persons, on unemployment insurance and other social benefits. It also explains, why the identical employees are paid unequally and why small and big companies do not offer the same wage.

The sixth chapter explains work contracts and wage policies in the conditions of risks and imperfect information in principal-agent models and explicit and implicit labour contacts model. It explains the aspects of human resources management, such as seniority and promotion rules: "Empirical studies confirm the existence of an increasing relationship between seniority and wages as well as the influence of incentive mechanisms in this area" (p. 390). The authors emphasize the role of social preferences. They demonstrate on referenced studies, that individual well-being depends not only on his income but also on the well-being of others. It explains under which conditions the companies and employees are interested in long-term contracts, in hierarchic promotion, in creation of internal labour market and other motivating features. It explains the efficiency wage model and the role of involuntary unemployment in it.

The seventh chapter deals with collective bargaining, it analyses the preferences of trade unions and employers and formalizes the bargaining models (the monopoly union model, the right-to-manage model, efficient contract model). It discusses the impact

of bargaining force of trade unions on wage, employment, productivity, profit and investment of firms. According to the authors, the positive impact of collective bargaining on wages and productivity can be seen in empirical studies, while this effect on profit and investment into physical capital is rather negative (p. 466). The chapter is further focussed on relations of employees with sure stable employment (insiders) and those without this certainty (outsiders). The segmentation of labour market is explained.

The topic of the eighth chapter is discrimination, which can persist on imperfect markets. The types of discrimination are presented – they stem from the preferences to discriminate (taste for discrimination) or from imperfect information and the effort to minimize costs by the firm (statistical discrimination). It presents into detail the methods of identification and measurement of discrimination through decomposition of wage differentials (Oaxaca-Blinder decomposition), which it uses to explain the gender wage gap. It points to the importance of the pre-market factors, such as education and psychological characteristics, *e.g.* opinion on risk and competition. The social norms can also significantly influence the supply of work opportunities for certain groups. As the authors show (p. 539), these specific characteristics can for example explain why women search for selected types of work, and also the course of their work careers. These characteristics belong to the so-called “unexplained” factors and in principal make bigger the part of gender gap, which is connected to discrimination. Also the approach to risk influences the choice of employment and the earnings of course. The authors point at the studies showing the lower readiness of women to carry risks and to enter competitive jobs. Women perform more altruistic behaviour and prefer a higher level of redistribution than men. The social presentation of women as homemakers and men as breadwinners reduces labour force participation of women. These characteristics, created in youth and enforced in the course of life, are – according to the authors – key factors, which influence later performance on the labour market and of course also the earnings. The authors discuss the role of affirmative actions aimed to support disadvantaged groups on the labour market and come to clear conclusions: “The existence of the quota discourages education and leads ultimately to a highly inefficient situation in which firms make negative profits by being forced to hire workers who have no incentive to improve their productivity. These considerations suggest that affirmative action can have detrimental consequences that lead to efficiency” (p. 535).

The third part presents contemporary perspectives of labour markets, particularly with regards to processes of creation, occupation and destruction of vacancies. Three chapters in this part deal with job searching and work allocation so with the processes of distribution of employees into job positions (the matching model). The variation of unemployment depends on these processes. It shows the impact of technological progress and globalisation on employment of various groups of employees. It explains processes of migration, its economic theory and empirical data. The ninth chapter uses search and matching models for identification of employment and wage determinants on the labour market, where some positions are destructed and some new are created. The re-allocation of work is costly and time demanding, which causes market frictions. The chapter number ten evaluates effects of technological progress on income inequalities and unemployment. It shows that technological progress has significant impact on wage inequalities and structure of job positions. The eleventh chapter analyses the globalisation effects (trade and migrations) on income inequalities and unemployment. The authors

state that the impact of migration on wages and unemployment is in short term rather small. The long-term trends of international trade and migration are then presented together with an amount of empirical material in a detailed manner.

The last fourth part contains three chapters devoted to public policies. The topics of the twelfth chapter are the redistribution policies and the impact of taxes and transfers to earnings, employment, unemployment and participation on the labour market and worked hours. The question of fiscal impacts is analysed into detail, as well as the minimal wage. The thirteenth chapter deals with unemployment insurance and the legislation protecting employees on the labour market and examines the impact of such measures on wages, unemployment, productivity and segmentation of labour market. It presents particular measures in some selected OECD countries.

The authors show that the creation of job positions in public sector causes pressure on wages and restricts vacancies in private sector. On page 966 the authors state: “Job creation in the public sector is more often ineffective than others interventions and even appears detrimental with negative treatment effects. The effect on unemployment is then small and ambiguous. They point out that these measures are expensive and effects are only marginal. They warn that every labour market policy brings externalities, which cause that the effects of such measures are definitely diminished. For example, the measure advantageous for one group disadvantages the other” (p. 984).

The authors discuss methodological principles of optimisation of mix of unemployment benefits and measures protecting employment on the labour market. The last fourteenth chapter brings and overviews of employment policies measures used in OECD member states together with an analysis of their advantages and disadvantages. It describes cases and consequences of use of these measures in detail, using meta-analyses of empirical data (Card *et al.*, 2010, Kluve, 2010).

The monography Labor economics provide very complex view on labour markets functioning. In its fourteen chapters the book covers all the fundamental topics of labour economics. It goes further than other economic publications about labour market in several aspects. It provides very comprehensive overview of study literature – books, paper and empirical studies for all elaborated topics. It uses detailed mathematical apparatus in notations, proofs and equations to describe economic relations on the labour market. It works with large empirical material, which is used for illustrative application of econometric models. All this in its entirety provides an extensive, complex and diversified testimony about processes happening on the labour markets and influencing the lives of all of us.