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0521453267 - Human Capital, Employment and Bargaining
Robert A. Hart and Thomas Moutos
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This book examines human capital investment, employment and bargaining at the level of the firm. It attempts the first summary of results that incorporate both human capital investment and employment decisions within firm–union bargaining models, emphasising investment in teams, or groups, of workers. The authors also examine human capital in relation to labour demand as well as the delineation between neoclassical and coalitional firms. Further, they investigate connections between, on the one hand, turnover costs and firm-specific human capital and, on the other, unemployment. Labour market policy topics recur throughout the book and include the choice between pure wage and profit-sharing remuneration systems, the issue of whether training should be subsidised by governments, work-sharing versus layoff decision, payroll tax incidence and the choice of compensation system as well as the role of human capital in influencing a firm's voluntary *ex ante* decision as to whether or not to bargain with an established union.

The book is aimed mainly at the academic economics profession, but is easily accessible to final year undergraduate and postgraduate students.

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Published by the Press Syndicate of the University of Cambridge
The Pitt Building, Trumpington Street, Cambridge CB2 1RP
40 West 20th Street, New York, NY 10011-4211, USA
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

© Cambridge University Press 1995

First published 1995

A catalogue record for this book is available from the British Library

Library of Congress cataloguing in publication data

Hart, Robert A.
Human capital, employment and bargaining / Robert A. Hart,
Thomas Moutos
p. cm.

Includes bibliographical references (p.).

ISBN 0 521 45326 7

1. Human capital. 2. Employment (Economic theory)
3. Collective bargaining. I. Moutos, Thomas. II. Title.
HD4904.7.H33 1995
331--dc20 94-32952 CIP

ISBN 0 521 45326 7 hardback

Transferred to digital printing 2002

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To our parents

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Preface

The primary focus of this monograph is on human capital investments, employment and bargaining at the level of the firm. The book provides coverage of well-established ideas in employment theory in relation to the human capital and the union bargaining literature together with developments that embrace important, though as yet sparsely researched, extensions. In particular, in this latter respect, it attempts the first summary of results that incorporate both human capital investment and employment decisions on the firm–union bargaining agenda. Emphasis is given to bargaining over investment costs and returns with respect to a team of workers. Microeconomics sections examine human capital in relation to labour demand and firm–union bargaining models as well as delineating between neoclassical and coalitional firms. Bargaining models embrace both efficient and sequential contracts. At the macro-economic level, we investigate connections between, on the one hand, turnover costs and firm-specific human capital investments and, on the other, unemployment.

Throughout the text, two important human capital distinctions are emphasised. First, we differentiate between firm-specific and general human capital. Secondly, we delineate between models that concentrate on investment in the marginal worker and those that accommodate the fact that, in important instances, human capital investments are made with respect to teams, or groups, of workers.

A number of labour market topics recur throughout the book. We investigate the employment and other labour market effects of the choice between pure wage and profit-sharing remuneration systems. In line with one of the most important contributions of human capital theory, we distinguish between the stock and utilisation dimensions of the labour input; that is, we differentiate between numbers employed and the length of the work week. More generally, we discuss the implications of the main theoretical developments for labour market policy. Some of the

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policy issues – such as those tied up with the employment/working time debates and whether governments should subsidise training programmes – are quite familiar to the literature. Other areas covered comprise relatively new topics: as examples, we consider the implications of the payroll tax structure for the choice of compensation system as well as the influences of government employment subsidies (under regional policy, for example) on firms' decisions on whether or not to employ unionised labour.

The work is aimed mainly at the academic economics profession. Nevertheless, we have attempted to make it easily accessible to final year undergraduate and postgraduate students. Chapters 2 and 4 can be read as reviews of the relevant labour demand and union bargaining literature.

We thank Alison Booth who supplied us with many useful comments and suggestions. Also, we are grateful to Felix FitzRoy, Daniel Hamermesh, Seiichi Kawasaki, Andrew Oswald, Peter Kuhn, Jim Malley and Robin Ruffell for useful comments and discussions of various parts of the text. Of course, none of these colleagues is in any way responsible for subsequent errors and misconceptions.