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Origins of a Segmented Labor Market: An Endogenous Gift Exchange Explanation of Good Jobs and Bad Jobs in Motor Freight

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ABSTRACT

The linear principal-agent microeconomic model originally developed by Holmstrom and Milgrom is extended by building in an endogenous "reciprocal partial gift exchange" feature. This implements the idea that a gift of rent may improve the insurance-incentive trade off faced in this model by a principal in compensating a risk-averse agent for exerting effort, when that effort cannot be perfectly observed. The extension produces a variant of the model with two optimal contract regimes, one in which agent effort is relatively observable, and no rents are paid ("bad jobs"), and one in which agent effort is relatively unobservable, and the agent receives an employment rent ("good jobs"). An interesting consequence of this way of integrating distributional issues with efficiency ones is that under the assumptions of the model, the principal always chooses a gift of rent to the agent which is too low, from the standpoint of social efficiency. In an empirical application that motivated the theoretical approach, a special case of the multitask version of the model is shown to generate a potential explanation of the stylized facts of the labor market segmentation that exists in the for-hire trucking industry, between truckload (TL) and less-than-truckload (LTL) firms. This provides a possible microeconomic foundation for the intuition that part of the reason for the other differences between the jobs in the two segments is a difference in how effective piece rates are in extracting employee effort.

More information on this paper by be obtained by contacting the author directly.