Errata Corrige

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1 Overview

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7 Family Policies

• page 322, questions 12, 13, 14 and 15: they should be seen as a single question; question 13 is 12a, 14 is 12b, 15 is 12c.

8 Education and Training

9 Migration Policies

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12 Unemployment Benefits and Active Labor Market Policies

• page 531, box 12.3, eq. 12.1: \( e = \phi(V_e - V_u) \);

• page 531, box 12.3, eq. 12.2: \( w_e = b + e \left( \frac{\rho + \delta}{\phi} + \phi \right) \);

• page 541, box 12.6: the solid line represents the treatment group, the dashed line represents instead the control group;

• page 558, question 9: the answer to this question is in Box 12.3 in the second edition of this book, whereas it is not present in the present version. The question can be replaced by the following: “How do intensive interviews with employment counselors affect the behavior of unemployed workers?”

13 Health-Related Labor Policies

• page 584, row 1: [..] type B workers the workplace safety measures have no consequence, but for type A workers the equilibrium outcome is not
allowed as $R^*_A > R^S$. For type $A$ workers the outcome is still on the zero-profit curve [...] .

14 Payroll Taxes

- page 618, box 14.2, equation 14.5: $\epsilon$ at the numerator on the rhs should be replaced with $\epsilon$; furthermore, a minus sign is missing.
- page 618, box 14.2, closing line: [...] a change in taxes should not have an effect on labor demand ($L^d$): $\frac{\partial L^d}{\partial t} = 0$
- page 621, row 17: [...] when unemployment benefits are indexed to net wages [...];
- page 623, row 30: [...] interpretation of this result is that an increase in social security [...];
- page 626, box 14.4, row 11: The control period is 2007 when both groups were subject to the earnings test. The treatment period is 2008 when 69-year-olds were earnings-tested while 68-year-olds were exempt from the earnings test earnings-tested
- page 629, fig. 14.6: graphs a and b must be switched to reconcile with in-text presentation of them.
9.10.2 Immigration and Wage Relativities

The distributional consequences of migration in presence of an imperfect substitutability between migrants and natives can be better understood by drawing on a simple model linking immigration to wage adjustment of natives. Consider the same type of constant returns to scale Cobb-Douglas production function posited in Technical Annex 6.9.2. when dealing with labor demand for young and older workers. It uses capital $K$ and a labor composite $L$ to produce output value $y$ as follows:

$$y = AK^\alpha L^{1-\alpha}$$

where $0 < \alpha < 1$. The sub-production function for labor in this case reads:

$$L = [\theta L^u + (1 - \theta) L^s]^{\frac{1}{\beta}}$$

where subscript $u$ and $s$ denote unskilled and skilled labor respectively, $\frac{1}{\beta} < \theta < 1$ is a distributional weight, and the crucial parameter characterizing the substitutability between two types of labor inputs is $0 < \beta \leq 1$. Indeed, the elasticity of substitution between unskilled and skilled labor is given by $\sigma = \frac{1}{1-\beta}$ where the lower is $\beta$, the greater the complementarity between skilled and unskilled labor (when $\beta$ is equal to one, the two types of labor are perfect substitutes).

Suppose that natives (superscript $N$) and immigrants (superscript $I$) are substitutable within each skill group up to a scalar parameter $0 < \lambda_u, \lambda_s < 1$ so that $L_s = \lambda_s L^N_s + (1 - \lambda_s) L^I_s$ and $L_u = \lambda_u L^N_u + (1 - \lambda_u) L^I_u$.

We consider a perfect labor market of a competitive firm (taking not only wages, but also the rental cost of capital $r$ and the final price of the good as given). As usual, the optimal employment level will equate the value of the marginal product of skilled and unskilled labor to the wage rate:

$$w_u = (1 - \alpha)AK^\alpha L^{1-\beta-\alpha} \theta L^s_{\beta - 1}$$

$$w_s = (1 - \alpha)AK^\alpha L^{1-\beta-\alpha} (1 - \theta) L^s_{\beta - 1}$$

so that:

$$\frac{w_u}{w_s} = \frac{\theta L^s_{\beta - 1}}{(1 - \theta)L^s_{\beta - 1}}$$

Thus wage relativities will depend on the distributional weight and on the relative endowment of skill and unskilled labor. Consider an initial condition where $L^I = L^I_u = L^I_s = 0$ and focus in the short-run so that capital is fixed. We shall look at the wage effects of an immigration shock of unskilled labor assuming that labor supply of natives is inelastic. By simply taking the derivative of equation (9.9) with respect to unskilled migrant workers, we have that:

$$\frac{\partial w_u}{\partial L_u} = \frac{\theta(\beta - 1)L^s_{\beta - 2}(1 - \lambda_u)}{(1 - \theta)L^s_{\beta - 1}}$$
which is clearly negative unless skilled and unskilled labor are perfect substitutes (in which case it is zero). Notice further that the negative effect is stronger, the more productive are unskilled migrants vis-a-vis unskilled natives (the lower is $\lambda_u$). The opposite happens when the immigration shock involves only skilled workers, in which case wages of skilled workers decrease relative to wages of unskilled workers. If skilled immigrants are initially significantly less productive than skilled natives (there is much learning on-the-job to be achieved not lastly because of language barriers) then we expect that an inflow of skilled migrants has less effects on wages relativities than an inflow of unskilled migrants. This will be even less so if part of the immigrants accept a downgrading and operate de facto as unskilled workers.

The framework below has also been used in Chapter 6, Technical Annex 6.9.2