

Firm-provided training in two-tier labor contracts and social efficiency

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Abstract

This theoretical work addresses an employer's decision to invest in firm-specific training for temporary workers. Opportunities to receive firm-provided training are significantly more limited in temporary jobs than in permanent jobs since training costs are less likely to be covered because of the shorter employment duration in the former. However, why temporary workers receive less training than permanent workers and the social optimality of employers' decisions have been unexplored from a theoretical perspective. Thus, we construct a theoretical model to capture decision making by employers and examine whether the equilibrium decisions of employers regarding provision of training to temporary workers and hiring a worker under each type of contract are socially efficient. In this study, three types of equilibria are characterized depending on the share of temporary workers who receive firm-provided training. Furthermore, we show that employers' decisions on hiring and the provision of training to temporary workers are socially efficient even if the Hosios condition is not satisfied. How to restore social efficiency and the optimal package of employment policies are also examined..

Keywords: firm-specific training, social efficiency, firing costs, temporary contracts

JEL Classification Numbers: J24, J41, J64

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