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## When mainstream economics does human resource management: a critique of personnel economics' prescriptive ambition

FRANCK BAILLY

### Abstract:

*Under the impetus of Edward Lazear, personnel economics has established itself as a particularly dynamic area of mainstream labour economics. It aspires to provide the best solutions to the practical problems that human resource managers encounter. The following paper aims to do the following: summarize the criticisms of personnel economics made from the perspective of heterodox economics, add a new criticism, and show how these criticisms, taken together, lead us to conclude that modes of labour management are legitimate subjects of debate, contrary to Lazear's beliefs.*

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### 1. Introduction: personnel economics and the declaration of an ambition

The economic analysis of work has evolved considerably over the course of its history (McNulty, 1980; Brunetta, 1991; Boyer and Smith, 2001; Spencer, 2009). One of the major turning points in recent decades has undoubtedly been the emergence and subsequent consolidation of personnel economics. Developed initially by the American economist Edward Paul Lazear, this branch of mainstream economics aims to study the human resource management (HRM) practices of firms. It addresses issues such as employee motivation, recruitment, training, and so on (Lazear, 1995a, 1998; Garibaldi, 2006; Lazear and Gibbs, 2008). Personnel economics quickly established itself as a self-contained area of enquiry in economics (Altmann and Zimmermann, 2011, p. 3), attracting numerous economists other than Lazear himself. The field's vitality is demonstrated by the number of citations of Lazear's articles, as well as by the publication of special issues of journals dedicated to the topic, the



appearance of a specific reference code in the *Journal of Economic Literature's* classification (M5), the inclusion of personnel economics in textbooks on labour economics (Grimshaw and Rubery, 2007) and even the organization of summer camps (Gunderson, 2001, p. 433). Given the important role he has played historically in the development of this field and the central place he continues to occupy, leading some to believe that "perhaps the greatest testament to his impact is that he has attained 'one name' status among a large group of economists" (Oyer, 2016, p. S1), the present article will focus on the works of Lazear himself.

Several factors have contributed to the level of recognition accorded to personnel economics. Firstly, the field has been regarded as an illustration of the ability of the mainstream economics to extend its sphere of analysis beyond its usual boundaries – an idea that reflects the imperialism claimed by Lazear himself (Lazear, 2000). Secondly, Lazear's communication strategy has been another factor in the success of this branch of economics. He has, rather astutely, brought together under the single label of personnel economics his own work and earlier analyses (such as the ones based on the notion of the efficiency wage). Finally, Lazear's founding in 1996 of the *Society of Labor Economists* and, prior to that, of the *Journal of Labor Economics* in 1983, as well as his position as editor-in-chief of that same journal for 20 years (Oyer, 2016, p. S1), have also undoubtedly been factors that have contributed to the establishment of personnel economics.

The interest Lazear has shown in the field of labour management is not unconnected with his career trajectory. He did, after all, move from the economics department at the University of Chicago to the Graduate School of Business at the same university and then to the Graduate School of Business at Stanford University (Lazear, 2011, p. 8). Lazear explains that business school students have different expectations from those of the students in university economics departments, with the former seeking to acquire much more operational tools than the latter. This is what led him to change his approach to economics: "The confrontation with the reality that what I was teaching was not relevant to most of my students forced me to change the focus of my research" (ibid., p. 9).

This is what led Lazear to make it the ambition of personnel economics to provide the best solutions to the problems that firms face in human resource management. This objective must not, he noted, cause us to deny the profoundly human nature of the situations analysed. As Lazear (1998, p. 3) explains: "It is important to point out that adopting a tough, analytic approach does not rob the human resources manager or general manager of compassion. Human resources decisions are often painful because they affect people directly and often in ways that significantly impact their lives". However, for Lazear, personnel economics must seek to go beyond this emotional dimension<sup>1</sup> to be able to produce prescriptions for firms based on the concepts of rationality, equilibrium, efficiency, and methodological individualism. This is the prescriptive ambition that is our focus.

Lazear acknowledges that the approach adopted in personnel economics is not the only one capable of formulating prescriptions. In the academic field, for example, sociology and psychology have longstanding traditions of analysing labour management practices. Heterodox economic analysis has also long focused on what happens in the "black box" of the firm. Thus, these analyses could serve as the basis for developing prescriptions. Outside the academic sphere, it is also possible to draw from managers' experience, or that of other actors on the ground, such as employees.

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<sup>1</sup> This distancing from emotions is a general characteristic of mainstream economics (cf. Nicolaidis, 1988).

Faced with such rivals, as we shall see, Lazear's objective was to argue that his theoretical analysis and the prescriptions stemming from it were superior in practical terms. If this ambition were realized, it would be possible to assert that the actual modes of human resource management in firms that adopt the prescriptions of personnel economics do not have to be debated by heterodox economic analysis, by the other academic disciplines, or by other actors on the ground, precisely because they are the best in theoretical terms (according to Lazear).

Regarding this issue that is both academic (considering the possibility of allowing approaches other than personnel economics to discuss HRM) and democratic (in view of the possibility of actors on the ground doing likewise), the purpose of the present paper is to point out that, while personnel economics has enjoyed the considerable success referred to previously, it has also been the object of criticisms. We will concentrate on the criticisms that stem from recent heterodox economic analyses with roots in various schools of thought (the institutionalist school, American radical analysis, organisational theory, the Carnegie School, socioeconomics). We will summarize these criticisms and add to them. We will also show how, taken as a whole, these criticisms restore legitimacy to points of view other than that of personnel economics.

The rest of the article is organized as follows: first, we present the arguments put forward by Lazear in support of his claim that personnel economics is superior to its rivals. Then, we examine the criticisms heterodox economists have levelled at personnel economics and their implications for Lazear's initial ambition.

## **2. Good theoretical solutions make good practical solutions: Lazear's arguments**

Despite Lazear's declared ambition, the existence of rivals cannot be ignored. Various schools of heterodox economics, as well as sociology and psychology, or even the experience of actors on the ground (notably that of managers) could all be used as the basis for formulating prescriptions aimed at firms. Thus, in order to disqualify them and to realize his objective of offering firms the best solutions to the problems they encounter, Lazear highlights the superiority of his approach. His arguments are outlined below.

### **2.1. Personnel economics is "superior" to psychology, sociology and even to the market...**

Although Lazear acknowledges that psychology and sociology have some degree of relevance to human resource management, he repeatedly asserts that his method is superior to either. For example, in the interview he gave to Daly and Hunter (2017, p. 120), he explains: "I love economics. I think it's one of the most powerful sciences that we have ever come up with". This assertion is based, it seems to us, on two closely linked notions. The first of these is a vision of economics that suggests that the discipline can be easily extended to vast areas of social life that are not part of its traditional sphere of inquiry. Human resource management is one of these new areas of inquiry. This economic imperialism that Lazear puts forth (Lazear, 2000) constitutes an explicit extension of the approach developed by Gary Becker,<sup>2</sup> whom he

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<sup>2</sup> However, such an ambition is not unique to Becker (cf., for example, Stigler, 1984; Nik-Khah and Van Horn, 2012) and certainly goes back further in time. Thus Backhouse and Medemaz (2009, note 29) found this concept present in an article published in 1933.

regards as an “economic pioneer”, a “giant” and a “genius” (Lazear, 1998, 2015). Secondly, the assertion of the superiority of personnel economics is justified, according to Lazear, by the nature of the tools used, principally mathematical tools. After all, while there are longstanding traditions in psychology and sociology of analysing HRM issues and both disciplines have, as Lazear acknowledges, a certain degree of relevance in that they raise the right questions, these academic disciplines, in his view, lack rigour in the answers they provide.<sup>3</sup> Even though he explains that rigour is not necessarily associated with the use of mathematics (Lazear, 2000, note 2), a mathematical approach is still ultimately a sign of superiority (Fourcade et al., 2015). It emerges as the condition for improving knowledge and making progress (Diamond, 2009, p. 202, note 19), in a similar way to what can be observed in biology and physics (Katzner, 2003, p. 564; Lazear, 1995a, p. 2). In addition to this lack of rigour, sociology and psychology also have a tendency to focus on particular cases that cannot be generalised.

These observations are not specific to human resource management, declares Lazear. They also apply to finance, for example (Lazear and Shaw, 2007). Nevertheless, this latter discipline has been able to develop under the influence of economists and has moved away from investigations without formal models or empirical analyses towards more formalised studies. According to Lazear, the analysis of issues in human resource management needs to follow a similar path and personnel economics seeks to contribute to this process by offering rigorous and generally applicable solutions. This is what led Lazear to assert that the field of human resource management had now become scientific thanks to the input of personnel economics – the implication being that it had not previously been so (Lazear, 1998, p. 1).

Beyond the notion of scientific progress, notably by comparison with sociology and psychology, personnel economics is also said to represent an advance on the accumulated experience of actors on the ground, particularly that of managers. Lazear acknowledges that this experience is important (Lazear and Gibbs, 2009) but once again, it suffers from the same weaknesses as those from which sociology and psychology suffer: a lack of rigour and a lack of generality.

It might be considered, at first glance, that these linked weaknesses are not troublesome because the market will punish firms that do not adopt efficient practices. Becker (1971), for example, had already advanced an argument of the same kind in order to explain why firms that discriminate must eventually disappear from the market, which should also lead to the disappearance of discrimination. The same logic applies when it comes to human resource management. After all, even if it is assumed, as is the case with traditional hypotheses, that firms are rational maximizing agents (Lazear and Shaw, 2007, p. 91), it is possible that some of them “may not behave as they should” (Lazear, 1995a, p. 7) and that they will, consequently, be forced out of the market. According to Lazear, however, this market discipline does not make personnel economics pointless. To demonstrate the utility of his approach, Lazear (1995a, pp. 7-10) uses a numerical example to show how the tools of personnel economics strengthen market efficiency and make the selection of good practices more likely: “Without economists, the discipline of the market would cause the errant firms to fail. Economists can remedy the situation more rapidly by increasing the proportion of successes” (Lazear, 1995a, p. 7).

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<sup>3</sup> In the interview he granted to Daly and Hunter (2017), Lazear even declares that one of his psychologist colleagues “[...] is always amazed at how economists can strip away the extraneous to get to a quick and clean answer”.

## 2.2. ... as well as to heterodox economics

When it comes to academic disciplines, it is not only over sociology and psychology that personnel economics asserts its superiority. It also has heterodox economics and, more particularly, institutionalist economics in its sights. Lazear criticizes it, just as he does sociology and psychology, for its lack of rigour and for being too “chatty” (Lazear, 1998, p. vii).<sup>4</sup> However, since institutionalist economics falls within the academic field of economics, the assertion, by Lazear, of personnel economics’ superiority was to take him beyond this criticism of a lack of rigour<sup>5</sup> as he sought to show that he takes seriously the criticisms that institutionalist economics aims at mainstream economics (to which personnel economics belongs) and that he can incorporate them into his theoretical framework in order, ultimately, to transcend them.

And indeed, institutionalist economics has repeatedly criticized mainstream economics for not taking sufficient account of what happens inside firms (Camuffo, 2002; Favereau, 2006)<sup>6</sup> Lazear acknowledges this lack of interest. Thus, he recognizes that the concept of “job” is virtually absent from most economic theories (Lazear, 1995b, p. 260). It plays no part in the standard theory of production, which reduces labour to a homogenous factor without considering the “slots” within which labour is deployed. Nor does it play any part in human capital theory, which emphasizes the labour supply, i.e., individual behaviour and characteristics rather than jobs themselves. Beyond the concept of job, Lazear acknowledges that human resource management in its entirety is ignored since the intellectual tools that mainstream economists use are, he explains, excessively abstract.<sup>7</sup> However, having acknowledged this fact, Lazear offers a response to that criticism and that response is personnel economics: “Personnel economics is an attempt to look inside the black box” (Lazear, 2011 p. 10). This is, after all, an analysis that addresses topics of direct concern to firms, such as employee motivation, recruitment, promotion, training, and so on. It does so, according to Lazear, in a rigorous and general way (Lazear and Shaw, 2007; Lazear, 2011), since it uses the concepts of rationality, equilibrium, efficiency and methodological individualism), which shows the ability of mainstream economics to absorb criticism (Boyer and Smith, 2001; Gallaway and Vedder, 2003). In this way, Lazear seeks to eclipse institutionalist economics, whose more realistic approach could have served as a basis for prescriptions, on its own territory. Ultimately, it is one less competitor for personnel economics.

However, personnel economics does not stop there, since it turns the realism argument against institutionalist economics, which first advanced it. After the criticisms levelled at personnel economics by institutionalist economics, the former has incorporated more realistic elements concerning HRM into its analytical framework, but has done so by changing the nature of those elements. Those elements are no longer only data drawn from reality, or facts that have to be taken into account, as institutionalist economists generally advise. Personnel economics seeks to explain them, something that institutionalist economists do not generally

<sup>4</sup> This criticism is similar to the disdain with which economists viewed labour economics a few decades ago. For example, Samuelson believed that labour economics attracted only those economists “who were unwilling or unable to stand the rigours of mathematical formalisation, while Fisher took the view that there were no demanding intellectual problems” (Gahan and Harcourt, 1998, p. 509-510).

<sup>5</sup> The debates between Lazear and heterodox economists have certain similarities with those between Taylorism and institutionalism (cf. Bazzoli and Dubrion, 2020).

<sup>6</sup> This criticism is also directed at mainstream economics by heterodox schools of thought other than institutionalist economics, such as the American radicals for example (cf. Bailly, 2016), but Lazear seems to pay it little attention.

<sup>7</sup> Lazear declares that this is what explains why the field of human resource management has been dominated by academic disciplines other than economics (Lazear, 1995a, p. 1).

do;<sup>8</sup> more specifically, they are incorporated into a rationality-based framework. As Gunderson (2001, p. 433) notes, personnel economics makes it possible “to endogenize what are often thought of as simply internal rules, regulations, and practices”. Ultimately, personnel economics appears to constitute a critique of institutionalist economics and, as such, represents a continuation of the strategy put forward by Becker (Fleury, 2012, p. 4).<sup>9</sup>

Personnel economics is not of course the first attempt to move away from the traditional approach to the firm and to enter the black box. For example, by accepting the incompleteness of employment contracts and the difference in the interests of employers and employees (Prendergast, 1999), which was also a key issue for heterodox economists,<sup>10</sup> mainstream economics has been led to concern itself with management situations that it had previously ignored (Green, 1988). To use Okun’s characterisation (1980), its focus has shifted from analysis of the invisible hand of the market to analysis of the invisible handshake which, as Favereau (2006, p. 71) notes ironically, has created a situation in which “economic theorists now display the passionate interest of a neophyte in the internal workings of organisations”.<sup>11</sup> This is the case, for example, with approaches based on notions such as the efficiency wage, implicit contracts or insider/outsider theory (Creedy and Whitfield, 1992). The same is true of Becker’s studies of firms’ funding of training programmes (1964) or, to give another example, discrimination (1971). Compared with these studies, personnel economics pushes the logic much further, firstly because it extends the range of HRM practices that are investigated by mainstream economists and, secondly, because it makes human resource management the central focus of its analysis, whereas earlier studies mainly sought to explain other phenomena, such as unemployment or wage setting.

### 2.3. Personnel economics as a prescriptive science

It would appear, that, for Lazear, formal rigour is proof of the superiority of his method over that of his rivals (heterodox economics, sociology, psychology, experience of actors on the ground), who are thereby disqualified. Consequently, according to Lazear, personnel economics’ theoretical solutions should be applied in order to provide the correct response to the practical problems that firms encounter. To put it succinctly, for Lazear, good theoretical solutions make good practical solutions. As he notes (Lazear, 1998, p. 1): “Personnel economics is now a science that provides detailed and unambiguous answers to the issues that trouble managers today”. Thus, in addition to their usual role of adviser of Princes,<sup>12</sup> economists now take on a second role – that of adviser of managers –, and it is from this point of view that Lazear published non-technical books such as *Personnel Economics for Managers* (1998) and

<sup>8</sup> This strategy is not unique to Lazear. For example, Rutherford (2001, p. 187) considers that it also characterizes the new institutional economics and, in particular, transaction cost theory.

<sup>9</sup> For example, with regard to regarding the analysis of discrimination advanced by Becker, Fleury (2012, p. 4) states: “first, in expanding the scope of price theory, he answered the traditional criticism of narrowness leveled at neoclassical economics by institutionalist labor economists”.

<sup>10</sup> Hart also acknowledges his filiation with the Marxist tradition (cf. Gahan and Harcourt, 1998).

<sup>11</sup> In French: “l’économiste théoricien porte désormais un intérêt passionné de néophyte au fonctionnement interne des organisations”.

<sup>12</sup> Lazear has been an advisor to several countries: to the USA as Chairman of the President’s Council of Economic Advisers, as well as to Czechoslovakia, Georgia, Romania, Russia, and Ukraine (Altmann and Zimmermann, 2011, p. 2).

*Personnel Economics in Practice* (Lazear and Gibbs, 2009) aimed at non-economist practitioners.

In addition to the question of method, which is central to the argument Lazear puts forward in order to affirm the superiority of his approach over those of his rivals, he advances another complementary argument as additional proof: the topics with which economists concern themselves are those of greatest interest to firms. Lazear explains that the behaviour of economic actors, – in this case employees – is shaped not only by their preferences but also by the environment in which they operate. He points out that the analysis of preferences has traditionally been a matter for psychologists. Consequently, personnel economists have to regard them as givens. On the other hand, the variables that characterize the economic environment, such as information, prices, and incentives, fall within the competence of economists. And it is precisely these variables that managers are able to control: “It is much easier to alter the incentives than to change the psychology of your workforce” (Lazear and Gibbs, 2009, p. x).

### 3. Heterodox criticisms of personnel economics’ prescriptive ambition

The idea that Lazear puts forward on the basis of the preceding argument, namely that good theoretical solutions make good practical solutions, seems to pose several problems. The first is linked to the need to “translate” academic concepts into the language of firms in order to make them operational. This process of translation is not discussed in personnel economics. This issue could apply to any theoretical study used as the basis for formulating prescriptions, but Lazear’s analysis also comes up against other, more specific criticisms, some of which come from the heterodox economic literature on which we are focusing – a summary of which is presented below. A new criticism is also added, and we show how these criticisms, taken together, put the initial ambition of personnel economics – namely to be the only approach capable of providing solutions for firms’ problems – into perspective. As a result, approaches other than personnel economics regain their legitimacy and the modes of HRM can be debated.

#### 3.1. First criticism: the difficulties of transferring ideas from academia to business

To argue that good theoretical solutions should make good practical solutions presupposes – as Lazear does – that these solutions can be easily transferred from academic circles into the world of the firm – as is also the case in matters of economic policy (cf. for example, Hirschman and Popp Berman, 2014). There are several factors working in favour of this point of view.<sup>13</sup> Teaching can be one of the channels through which this transfer takes place (Wilson and Thomson, 2006).<sup>14</sup> This is what Lazear envisages, as we have seen, when he says he has adapted his teaching to the new expectations of business school students, one of the pools from which future managers are recruited (Lazear, 2018, p. 196). Ideas can also be spread when academics participate directly in firms’ management bodies (cf., for example, the

<sup>13</sup> Some of these factors also apply to the diffusion of other theories, such as agency theory (Veldman and Willmott, 2020).

<sup>14</sup> This is a specific characteristic of economics and the social sciences more widely. After all, in the “hard” sciences, like physics, the situation is different, since teaching physics to students does not alter the physical world (Ferraro et al., 2009, p. 673).



survey by Cho et al., 2017, p. 395; Dequech, 2018, p. 480) or, more broadly, through the contacts they may establish with managers.<sup>15</sup> Finally, the omnipresence in the daily lives of the various economic actors of the concepts that economists use rather than those of the other social sciences (Ferraro et al., 2009, p. 671) and the prestige they enjoy further increase the opportunities for transmitting economic ideas to the world of the firm.

Nevertheless, these possible channels for the dissemination of ideas should not, in practice, be overestimated. Firstly, it would be necessary to ensure that courses in economics, and more particularly analyses that draw on personnel economics, play a significant and influential role in management programmes. Moreover, even assuming that this is the case, firms' choices can be influenced by sources other than the prescriptions of economists. After all, the other social sciences that are concerned with human resource management have also drawn up prescriptions (Ferraro et al., 2005). While from Lazear's point of view the other social sciences may seem to be less rigorous and less general, they may in practice have an impact on firms' decisions.<sup>16</sup> Beyond the prescriptions formulated by academics, managers are exposed to many sources of influence that serve to distance them from economists' prescriptions (Pfeffer, 2007; Dequech, 2018; Spencer, 2020). For example, managers' practices may be influenced by management consultants or by imitation of others, which may lead firms to adopt the practices of other firms to avoid the costs incurred in learning and discovering new practices (DiMaggio and Powell, 1983). The practices adopted by firms may also be influenced by past choices and practices, thereby giving rise to path dependency (Dubrion, 2019).

The first criticism, summarized by the various points above, is that even if it is assumed that personnel economics could be capable of determining what, in theory, are the best solutions to firms' problems, there is no guarantee that firms will actually adopt them in practice. Other factors may influence their choices.

An economist committed to personnel economics could, nevertheless, counter this by declaring that firms will eventually realise the superiority of its prescriptions, notably because those that do not follow them will be less efficient and will be forced out of the market, as noted previously. However, this counterargument is not convincing. After all, it can be assumed that if firms are, in practice, sensitive to influences from sources other than personnel economics and make choices other than those dictated by this theory, it is because it is in their interest to do so (Spencer, 2020). Their choices cannot be reduced to ignorance or difficulties in accessing the correct solutions that personnel economics might offer. These choices also involve questioning the practical relevance of these solutions, which we will return to when we address the third criticism.

### 3.2. Second criticism: the firm is a political space

The second criticism that can be made of Lazear's argument is that it overlooks the fact that the firm is a political space. It cannot be reduced to a space of mathematical calculation,<sup>17</sup>

<sup>15</sup> In the interview he granted to Daly and Hunter (2017), Lazear mentions the existence of such contacts.

<sup>16</sup> Of course, the existence of these other social sciences raises, in return, the question of teaching content, since they also have their dominant schools of thought (Meardi, 2014; Dundon and Rafferty, 2018). Their similarities and dissimilarities with personnel economics remain to be analysed.

<sup>17</sup> It should be noted that confining analyses to the mathematical calculation space is not specific to the management of human resources alone. According to Ghoshal (2005, p 77), it sustains the entire field of management practices, resulting in "business [being reduced] to a kind of physics".

in which Lazear encloses it. This political dimension has already been pointed out by analyses that have emphasized the influence that firms exert on their external environment (Jo, 2019). However, the political dimension is also found within firms and it is undoubtedly this point that the heterodox economic literature has most heavily emphasized (Grimshaw and Rubery, 2007; Osterman, 2009 and 2011; Theocarakis, 2010; Dilger, 2011; Spencer, 2011 and 2013; Dubrion, 2015; Nienhueser, 2017).<sup>18</sup> It seems possible to identify from this literature three factors that make the firm a political space: the existence of power relations, the existence of a bargaining process and, finally, the importance of beliefs or representations.

Firstly, the firm can be regarded from the perspective of labour management as a political space in that it is a space in which groups of actors confront each other, each with their own interests, which may potentially differ from group to group. Depending on their interests, these groups may seek to influence the decisions taken by firms, which may not coincide with the prescriptions formulated from outside by personnel economics, even when they might appear in theory to be the best. For example, Osterman (2009; 2011) notes that firms have been fairly slow to adopt certain new forms of work organisation, such as high-performance work systems, even though they are often associated with higher productivity. This surprising finding, observes Osterman, may be explained by the resistance of certain groups of actors, such as trade unions, that see their oppositional role called into question by the cooperation required by these new forms of work organisation. Resistance may also come from first-line managers, who feel threatened by the increased part played by employees in decision-making. Finally, employees themselves have sometimes expressed concerns about the possible consequences for their pay.

Secondly, the firm may be regarded as a political space in that it is a place of negotiation. This arises from the fact that the power relations alluded to above are not set in stone. For example, they can evolve, as the objectives of the various groups of actors change or the context changes (Gautié, 2009; Fudge, 2017), as occurs, for example, with the spread of financialization (Spencer, 2013). As a result, any decisions taken at a given moment represent a precarious equilibrium. They are never final. Rather, they are part of a trajectory, a dynamic (Fine, 2002) that may lead to a diversity of work organization practices, even within the same sector (Spencer, 2011, p. 123; Dubrion, 2015, p. 42), and cause firms to diverge from the solutions offered by personnel economics that are perceived in theory to be the best.

Finally, the firm is a political space in that beliefs, values, or representations matter. They constitute the frameworks through which reality is interpreted. They guide firms' decision-making in matters of human resource management and may, once again, lead them to make choices other than those prescribed by personnel economics. For example, Dubrion (2015, p. 52) notes that managers' decisions may be influenced by their beliefs about their own role within the firm, their perceptions of other managers' practices, or their ideas on what constitutes "good practice" in matters of management (Nienhueser, 2014, p. 9). The same applies to the introduction of incentive mechanisms. Such mechanisms are dependent on the belief that, left to their own devices, employees would not make any effort (Spencer, 2011; Nolan, 2012; Dubrion, 2015). Other beliefs about employees' behaviour might give rise to different practices that bank on their creativity or sense of responsibility (Kaufman, 1999). This influence of beliefs or representations on firms' decisions is in contrast with Lazear's

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<sup>18</sup> The expression "political space" is not, strictly speaking, used in these analyses. However, the repeated references to expressions such as "politics", "internal political process", "political context", "organizational politics", "internal political configurations", "political struggles" or "the political dimension of HRM" seem to express the same idea.

vision. In personnel economics, after all, the firm's reality imposes itself on the actors of its own accord, as a sort of self-evident, objective fact. There is no possible room for interpretation. Two different managers would produce the same analysis of the same situation and adopt the same practices, hence the possibility of prescribing the correct solutions.

Thus, this second criticism of Lazear's analysis states that, even if personnel economics is in theory capable of determining the best solutions, there is no guarantee that they will be applied in practice. The various actors may not seize upon the prescriptions of personnel economics or, if they do, they may do something different from what is prescribed. The counterargument, already mentioned above, that firms should recognise the superiority of the solutions proposed by personnel economics and therefore apply them is not convincing here either: if firms do not apply them, it is because it is in their interest, in one way or another, to act in that way.

### 3.3. Third criticism: the inability of personnel economics to model in theory the correct practical solutions

Drawing on the heterodox economic literature, the two preceding criticisms highlight the difficulties on a practical level, which is the one on which Lazear positions himself, in operationalizing the solutions proposed by personnel economics, even though they might seem the best in theory. To the first two we would like to add a different kind of criticism. Our aim here is to highlight, upstream of the previous arguments, the inability of personnel economics to determine in theory, simply by carrying out theoretical modelling, what the correct solutions must be on a practical level.

Indeed, Lazear's analyses, in an extension of Friedman's methodological positioning (Friedman, 1953), make use of simplifying hypotheses. These require economists to concentrate on certain problems (for example, how to incentivise workers to become more involved in their work) while at the same time acting "as if" all other associated problems have been resolved (it would be assumed, for example, that all the workers in question have a sufficient level of human capital). These simplifying assumptions may also concern employee behaviour, which is assumed to conform to that of *homo oeconomicus*, or the environment in which the firm operates (which is often assumed to be competitive). In the end, these simplifying assumptions lead, by their very nature, to a reduction of the complexity that characterises actual firms, as Lazear acknowledges when he writes "but the weakness of economics is that to be rigorous, simplifying assumptions must be made that constrain the analysis and narrow the focus of the researcher" (Lazear, 2000 p, 103). However, this statement, which has given rise to much debate in the past,<sup>19</sup> is made here in a very specific context, namely that of personnel economics' explicit ambition to provide managers with solutions, that is to be prescriptive. From this point of view, Lazear does not draw all the conclusions that he might have from his statement. After all, what corporate decision-makers must deal with in practice is precisely that complexity. They need realism. They cannot adopt *ceteris paribus* reasoning or act as if certain problems have already been resolved.

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<sup>19</sup> In terms of the history of ideas, it would undoubtedly be an interesting analytical exercise to identify the similarities and dissimilarities between, Lazear's work and the critiques to which it has given rise and, older controversies in the theory of the firm, in particular the marginalist controversy of the 1940s and 50s (Lee, 1984; Mongin 2014; Jo, 2018).

Consequently, and contrary to the argument advanced by Lazear, it seems difficult to believe that the prescriptions of personnel economics can be judged to be the best on a practical level on the grounds that they are the best on a theoretical level.

In order to be able to get close to the complexity of the firm, and to be useful on a practical level, a diversity of types of analyses is required (Aydinonat, 2018; Rodrik, 2018; Kaufman, 2020), which is not possible with Lazear's declared imperialism (King, 2013). It is true that an economist committed to personnel economics could point out that different models are indeed used (Seltzer, 2018) to formulate prescriptions. Thus, the deferred compensation model (Lazear, 1979), for example, is different from the tournament model (Lazear and Rosen, 1981), efficiency wage models (Yellen, 1984), or the human capital investment model (Becker, 1964), all of which fall within the scope of personnel economics (Lazear, 1993). However, even if it is agreed that these are in fact different analyses, it has also to be acknowledged that they draw on standard assumptions used in mainstream economics (rationality, equilibrium, efficiency, methodological individualism), as Lazear asserts (Lazear, 2000). In this respect, the analyses are not diverse at all. For such a diversity to exist, it would be necessary to retract all or some at least of the assumptions that characterise Lazear's approach and thereby open it up to other approaches or points of view (King, 2013).

In other words, this third limit amounts to emphasising that there is a contradiction in adopting simplifying hypotheses on the theoretical level, as Lazear does, and then using these to infer that good theoretical solutions also make good practical solutions.

### 3.4. The issues raised by the heterodox criticisms of personnel economics

Taken together, it seems to us that the various criticisms that we have just identified suggest that personnel economics cannot fulfil its initial prescriptive ambition of being able to offer the best solutions to the practical problems that firms encounter in matters of HRM. This has two consequences. Firstly, the prescriptions of personnel economics are brought down from the pedestal on which Lazear had placed them and they acquire a more modest status. Secondly, and most importantly, the points of view of other approaches – whether it be those of heterodox economics or of other social science disciplines such as sociology or psychology – that had been discredited by Lazear regain their relevance and hence a legitimacy that authorises them to discuss firms' modes of labour management. Beyond academic circles, the experience of managers, also discredited by personnel economics, also regains its importance. Similarly, and even though Lazear makes no reference to it (unlike in the case of managers), it could even be argued that the points of view of other key actors in the workings of the firm, such as employees and their representatives or even consumers,<sup>20</sup> could also make themselves heard (Simonazzi, 2021).

The legitimacy restored to this diversity of analyses and points of view means that firms' choices in matters of HRM can be debated. In turn, this—at least potentially—leaves open the possibility of introducing a plurality of management and work organisation practices (Spencer, 2013; Hodgson, 2004).

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<sup>20</sup> As in the case of janitors, for example (cf. Erickson et al., 2002; Zlolski, 2003).

#### 4. Conclusion

Under the impetus imparted by Lazear, personnel economics undoubtedly constitutes one of the major innovations in recent years in the mainstream economic analysis of employment relations. Its objective is to open the “black box” of the firm, which has long been a preferential area of inquiry for heterodox economists. From this point of view, its ambition is not solely positive, since personnel economics also seeks to provide solutions to the practical problems that firms encounter in matters of labour management. In this sense, it also aspires to be prescriptive. This latter ambition is underlaid by the idea that personnel economics, by virtue of the nature of its theoretical tools, is capable of determining the best solutions that should be adopted by firms on the ground (in other words, good theoretical solutions also make good practical solutions). The corollary of this argument is that any prescriptions and solutions that might be proposed based on other analytical frameworks are to be regarded as irrelevant, whether they be derived from institutionalist or, more generally, heterodox economics, psychology, sociology or even from the experience of actors on the ground (managers, employees, and consumers in particular). By the same token, all debate on the choices available to firms in matters of HRM ends, since personnel economics claims to provide all the correct solutions.

Having outlined the characteristics of Lazear’s argument, the purpose of the present article has been to show that, even if the analytical framework of personnel economics is taken seriously, the transition from the theoretical to the prescriptive register that Lazear undertakes is not a neutral operation. Lazear’s argument comes up against difficulties that he has underestimated and cannot be simply eliminated if one seeks to position oneself on the practical level, as personnel economics does. To acknowledge these difficulties is to put the contribution of personnel economics into perspective and to restore legitimacy to other points of view and other analytical frameworks and hence to accept the idea that firms’ decisions can be debated.

The criticisms we have made of Lazear’s ambition also open other avenues for further research. At least three can be mentioned here. Firstly, these criticisms should be set alongside the debates in the fields of industrial relations and HRM or earlier debates in economics around the marginalist controversy, for example. Secondly, it would also be interesting to examine in greater depth the representation of the firm underlying Lazear’s analysis and ascertain to what extent, if at all, it diverges from other theories of the firm. Finally, these debates in economics and other related disciplines raise the question of teaching and the possibility for students to have access to a multiplicity of points of view and theories.

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