

of specific training, the present value of future earnings that the firm pays the worker (E_F) can be less than the worker's market value (E_M), since

$$D + E_F = L + E_M \quad (7)$$

represents the compensation just sufficient to place the firm in equilibrium. If $D > L$, then $E_F < E_M$ and this implies that future compensation is less than the present value of the worker's marginal revenue product, which is the conventional definition of exploitation.²⁷

SUMMARY

In this section we have derived a number of predictions about employer and worker behavior from simple assumptions about the profit maximizing and cost minimizing behavior of employers and the utility maximizing behavior of workers.

We found that—

(1) Workers will have lower mobility when they are covered by an unvested pension plan, unless they attach no value at all to the pension; the effects should be larger with higher earnings and greater age.

(2) Workers will favor pensions more if there is a tax advantage (as there is in the United States).

(3) Workers pay for part of their pensions through reduced wages if they value pensions at all.

(4) Employers will adopt a pension if it increases their profits and it will increase their profits only if it reduces mobility and allows turnover savings (except when tax savings to the worker are great enough that he prefers a lower outlay by the employer with a pension to a higher outlay without a pension).

(5) In equilibrium, the value of the accrued pension rights of a worker will exceed or equal the capital value of the worker to the firm.

(6) Employers can allow partial or graded vesting for most workers at all ages and full vesting for many older workers without paying more to workers than they had planned. If they do not, they are exploiting the worker.

III. EVIDENCE OF THE EFFECT OF PENSIONS ON LABOR MOBILITY

The analysis in the preceding section suggests that unvested pensions will reduce mobility if workers value pensions and that profit-maximizing employers will adopt pensions unilaterally only if they believe that mobility will be reduced. Direct evidence of the association of pensions with low mobility is scanty, but there are three studies worth examining:

(1) Parnes' study of two plants in Columbus, Ohio.

(2) The Bureau of Employment Security's seven-city study.

²⁷ We ignore the sense of exploitation in which any employee of a firm in imperfect competition is exploited. See Allan Cartter, *Theory of Wages and Employment*, Irwin, Homewood, 1958, pp. 65-70.