



ELSEVIER

Contents lists available at ScienceDirect

The Quarterly Review of Economics and Finance

journal homepage: www.elsevier.com/locate/qref



The effect of non-pecuniary motivations on labor supply[☆]

Y.H. Farzin^{*}

Department of Agricultural and Resource Economics, University of California, One Shields Ave., Davis, CA 95616, USA

ARTICLE INFO

Article history:

Received 11 April 2008

Received in revised form 9 February 2009

Accepted 3 September 2009

Available online 11 September 2009

JEL classification:

D62

J22

I31

Keywords:

Non-pecuniary

Labor supply

Non-wage income

Paid work

Voluntary work

ABSTRACT

People value work not only as a means of earning income to satisfy their consumption needs but also as a direct source of satisfaction for its socio-psychological effects (non-pecuniary benefits). I show that once non-pecuniary effects of working time are incorporated in the standard labor-supply model: (i) the wage rate *under-estimates* (*over-estimates*) the true opportunity cost of non-work/leisure time when working time has non-pecuniary benefits (costs), (ii) non-pecuniary work motivations can substitute for monetary wages as work incentives, (iii) at very low wage rates, work can become a net source of *utility*, and (iv) the implied shape of labor-supply curve *differs* starkly from those implied by standard theory. I identify conditions under which a greater non-pecuniary work motivation induces a larger supply of labor, and examine the effects of non-wage income on supplies of paid work and voluntary work when there are non-pecuniary benefits associated with both types of work.

© 2009 The Board of Trustees of the University of Illinois.
Published by Elsevier B.V. All rights reserved.

[☆] I especially thank two referees of this journal for their valuable comments. I am grateful to Ken Akao for his contribution to early versions of this paper. For helpful comments and suggestions, I also thank Carlo Beretta, Richard Carson, Faraz Farzin, Bruno Frey, Anthony Heyes, Hilary Hoynes, Jonathon Kaplan, Stephan Kroll, Cheryl Long, Louis Makowski, Phillip Martin, Douglas Miller, Sandeep Mohapatra, Kazuhiro Ueta, and participants at the *Annual Conference of Public Economic Theory*, Marseille, France, June 16–18, 2005, and at the seminars at Waseda University, Kyoto University, University of Wyoming, and University of California at Davis. The usual caveat applies.

^{*} Tel.: +1 530 752 7610; fax: +1 530 752 5614.

E-mail address: farzin@primal.ucdavis.edu (Y. H. Farzin).

1. Introduction

Besides being a means of earning income to satisfy consumption needs, work is a direct source of satisfaction for its social and psychological (non-pecuniary) benefits.¹ The standard model of individual labor supply, however, assumes that work is a source of disutility, so that utility *always* increases with fewer hours of work (more leisure).² It then asks how an individual makes a tradeoff between consumption (made possible by hours of work) and leisure (time not allocated to work). By treating labor like any other commodity that is exchanged in the market for money, and considering each worker in isolation, the standard model assumes away the social and psychological effects of work on labor-supply decisions. As noted aptly by Krugman (1998, p. 15): “Economics textbooks may treat the exchange of labor for money as a transaction much like the sale of a bushel of apples, but we all know that in human terms there is a huge difference. A merchant may sell many things, but a worker usually has only one job, which supplies not only his livelihood but often much of his sense of identity. An unsold commodity is a nuisance, an unemployed worker a tragedy”.

In this paper, I ask how individual labor supply is affected by intrinsic work motivations, a basic question not formally and adequately explored in the theoretical literature on labor supply. I go beyond the standard model and follow sociologists and psychologists who recognize that work can be a source of satisfaction independent of earnings. According to social psychologists, people have *intrinsic* motivations for work because they get satisfaction from work for its own sake due to its social and psychological effects (see, for example, DeCharms (1968), Deci (1975), Jahoda (1981, 1982), Furnham (1990), Whelan (1994) and Agerbo, Eriksson, Preben, and Westergaard-Nielsen (1998)). Many experimental studies have shown that people value income earned through hard work more than windfall money (see, e.g., Loewenstein and Issacharoff (1994)), suggesting that the utility function depends positively on work effort independently of utility of income. Camerer and Malmendier (2007) have attributed this additional utility of work to what is entirely internal incentive and have termed it as “pride bonus”.³ Baron (1988) notes that a reviewing of the sociological and social psychological research on work incentive demonstrates the misplaced emphasis on “effort aversion” in standard economic models of work incentive and their overlook of the fact that social psychological forces can motivate workers more strongly than monetary incentives do. We extend the standard labor-supply model by explicitly incorporating the intrinsic work motivation in the individual utility function and examining how it interacts with the wage and the desire for leisure to determine labor-supply decisions. We obtain new insights with important implications for empirical labor-supply studies and formulation of policies to improve work incentives.

To be sure, there is a vast literature focusing on compensating wage differentials. However, this literature is typically concerned with the effects of job conditions or characteristics, such as fringe benefits, safety and environmental conditions, hardship or ease of tasks involved, job security and advancement prospects and other job (dis)amenities, on money wages in order to explain compensating differentials among different occupations and hence the individual's choice of a specific job among alternative job opportunities (see Brown (1980) and Rosen (1986) for a survey of this literature). For example, incorporating job characteristics in a model of labor supply, Atrostic (1982) estimated wage-job characteristics tradeoff and found that job characteristics, as well as money wage and prices, are important determinants of labor supply. While the non-pecuniary job characteristics with which the compensating differentials literature has been concerned are typically objective and measurable, the intrinsic incentives we are focusing on are psychological and subjective in nature and therefore are non-monetary, non-tangible, and often not directly observable or easily measurable. As such, they are much broader than the non-pecuniary job characteristics studied in that literature. In fact, as Camerer and Malmendier (2007, p. 242) note, “The existence of compensating differentials is not controversial. Behavioral economics suggests, however, that the *source* of these differentials might

¹ Throughout the paper the terms “socio-psychological”, “intrinsic”, and “non-pecuniary” are used equivalently.

² See, for example, Deaton and Muellbauer (1980, Chs. 4 and 11), Varian (1984, Ch. 6), and Killingsworth (1983), for the standard treatment of labor supply.

³ For more experimental evidence on intrinsic work motivations see, e.g., Arieli, Loewenstein, and Prelec (2004), Frey (1997), and references in Camerer and Malmendier (2007).

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات