Available online at www.sciencedirect.com
ScienceDirect
ELSEVIER
Labour Economics 14 (2007) 347–369
LABOUR ECONOMICS
www.elsevier.com/locate/econbase

Wage incentives and wage rigidity: A representative view from within

Jonas Agell [a,*], Helge Bennmarker [b]

[a] Department of Economics, Stockholm University, SE-10691 Stockholm, Sweden
[b] IFAU, Box 513, SE-75120 Uppsala, Sweden

Received 30 October 2005; received in revised form 24 April 2006; accepted 27 April 2006
Available online 27 June 2006

Abstract

A recent literature has used surveys of those who set wages to learn about the nature of wage incentives and the sources of wage rigidity. Methodologically, we overcome many of the objections that have been raised against this work. Substantively, we find that: (i) the reasons for real wage rigidity differ significantly between large and small firms, and between the high- and low-end of the labor market; (ii) efficiency wage mechanisms reinforce rigidities due to worker bargaining power; (iii) money illusion is a widespread phenomenon across all segments of the labor market; (iv) unions reinforce nominal wage rigidities due to external pay comparisons; (v) there appears to be gender differences in pay bargaining and work morale.
© 2006 Elsevier B.V. All rights reserved.

JEL classification: E24; J30; J50; C81
Keywords: Wage rigidity; Wage incentives; Survey evidence; Matched data; Behavioral macroeconomics

The consequences of wage rigidity are central issues for economic theory and economic policy. Yet, the profession has not reached an agreement on *why* wages appear to be rigid. To gather new insight, economists have started to ask questions to those who actually set wages.[1] This paper is a contribution to this literature.

* Corresponding author.
E-mail addresses: JA@ne.su.se (J. Agell), Helge.Bennmarker@ifau.uu.se (H. Bennmarker).

[1] See Kaufman (1984), Blinder and Choi (1990), Levine (1993), Agell and Lundborg (1995, 2003), Bewley (1995, 1999), Campbell and Kamlani (1997) and Franz and Pfeiffer (2003).

0927-5371/$ - see front matter © 2006 Elsevier B.V. All rights reserved.
doi:10.1016/j.labeco.2006.04.002

Methodologically, we overcome many of the objections that have been raised against previous surveys.[2] In cooperation with *Statistics Sweden* we have completed a fully representative survey of wage setters in sectors of particular interest for students of wage rigidity, and our sample includes firms in all size categories. We have a very high response rate of 75.1 percent, and non-response bias is a negligible issue. Via *Statistics Sweden* we have matched our survey with background data about responding firms and their employees, which allows us to generate important additional insight. According to the existing survey literature much rigidity can be traced to e.g. efficiency wage mechanisms involving fairness and voluntary turnover.[3] Our survey suggests that these results are not driven by statistically unrepresentative samples.

Substantively, we also report a number of unique results. First, the reasons for wage rigidity differ significantly between large and small firms, and between the high- and low-end of the labor market. Second, money illusion is a widespread phenomenon; our managers give the same answers as the student and laymen populations who participated in some previous studies. Third, theories of wage rigidity tend to identify one mechanism at a time, and treat it as an alternative to other sources of rigidity. Our results suggest that there are in fact significant complementarities between important theories of wage rigidity; efficiency wage mechanisms strengthen worker bargaining power, and therefore reinforce the ability of incumbent workers to push for higher real wages. Fourth, union membership fosters rigidities due to external pay comparisons across firms.

While some previous surveys asked respondents to react to a selection of theories of wage rigidity, most of our questions concern concrete issues of work and pay at the respondent's own unit. Like Bewley (1999) we tried to avoid hypothetical questions, and questions that required respondents to assess the equilibrium implications of firm-level wage setting. Thus, rather than asking about the relevance of fully presented general equilibrium theories of wage rigidity, we asked about certain mechanisms that are central to one or several theories. Though the answers to these questions help to shed light on the relevance of theories of wage rigidity, they should also be of interest for students of effort and incentives, in a broader sense. Our survey provides an inside view on how managers use wage incentives to affect employee behavior. Below, we report evidence suggesting that there are gender differences in bargaining and work morale; women appear to be less aggressive bargainers, and to feel more loyalty to their employer.

Finally, one should note that the Swedish recession of the 1990s offers an ideal environment in which to study high-unemployment/low-inflation behavior, see Fig. 1. Between 1990–94 unemployment (inclusive of those in labor market programs) increased from 2.8 to 13.6 percent.[4] When we conducted our survey in the Spring of 1999 unemployment was still almost ten percent.

[2] Some studies cover very few firms (Kaufman (1984) and Blinder and Choi (1990)), or focus on narrowly defined sectors (Agell and Lundborg, 1995, 2003). Most studies focus on large firms. The mean number of employees for the firms interviewed by Blinder and Choi (1990) and Agell and Lundborg (1995) was 5767 and 1154, respectively. Bewley (1999) over-sampled large companies, and interviewed the smallest firms only by accident. The sub-sample of 73 smaller firms surveyed by Campbell and Kamlani (1997) refers to firms with less than 1000 employees that were situated in a certain geographical area, and had a connection to the authors or to Colgate University. Kaufman (1984) focuses on small firms, but his 26 firms were not drawn at random, and they were concentrated to certain geographical areas. Levine's (1993) sample consists of 139 compensation managers in the very largest US companies. Franz and Pfeiffer (2003) report survey evidence from Germany; their response rate was 15.5 percent.

[3] See Agell and Lundborg (1995, 2003), Bewley (1995, 1999) and Campbell and Kamlani (1997).

[4] For an extensive discussion of the Swedish crisis of the 1990s, see Lindbeck (1997).

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