ITS/ECONOMICS SEMINAR

Retracting a Gift: How Does Employee Effort Respond to a Wage Reduction?

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SEMINAR 11:00 – 12:00 NOON
SOCIAL SCIENCE TOWER ROOM 220B

REFRESHMENTS AFTERWARDS
SOCIAL SCIENCE TOWER ROOM 575

Since the days of Henry Ford, employers have long argued that higher pay induces employees to provide additional effort. While the converse is also thought to be true, there is little empirical evidence testing such a hypothesis. This void in the literature is due, in large part, to a lack of available data. Not only are significant company-wide, permanent pay cuts rarely observed in practice, measures of employee effort are typically difficult to quantify. This paper examines the effect on effort provided by U.S commercial airline pilots following large, permanent reductions in pay. After controlling for other factors known to affect airline on-time performance, we find evidence that large pay cuts lead to a statistically significant decline in pilot effort, proxied by an increase in the rate of flight delays and cancellations. This reduction in pilot effort, however, is typically short-lived.