Alternatives to Paying Efficiency Wages
Why is there no PEOPLEFAX?

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6 March 2018
This project began with a desire to study the labor market impacts of "blacklisting" in the 19th and 20th centuries, specifically its relationship to nominal wage rigidity in "company towns".

Research into the History of Labor relations yielded a more interesting historical incident with applicability to Efficiency Wage theories of persistent unemployment that had previously not been examined.
"Ingredients" of an Efficiency Wage Model

- Competitive Labor Markets
  - For an employee in a competitive labor market, being fired is not especially troubling, since jobs paying MPL are easily available.

- Endogenous Level of Effort
  - Employees choose the level of effort that they put into their work based on extant costs and benefits, not their personalities or work ethic.
  - Workers exist in a "superposition" of shirker and conscientious worker.

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Mixing the Two "Ingredients":

- Unless workers pay a penalty for shirking, they will choose to shirk to avoid disutility of effort.
- Unless employers pay above market wages, employees won’t incur an opportunity cost after being sacked for shirking.

Shapiro and Stiglitz (1987)

“...the worst that can happen to a worker who shirks on the job is that he can be fired. Since he can immediately be rehired, however, he pays no penalty for his misdemeanor...to induce worker not to shirk, the firm attempts to pay more than the 'going wage'; then, if a worker is caught shirking and is fired, he will pay a penalty”.

- Result: Persistent, Involuntary, Unemployment
Questions at the Core of This Project:

- Can a case study indicate how prevalent shirking is in competitive labor markets without efficiency wages?
- Is paying supernormal wages the only solution to this problem? Can another solution curb shirking while maintaining market-clearing wages? Where is this system today?
At the end of the 18th Century, papermills, like the one owned by the Montgolfier family at Vidalon-le-Haut, had a problem with shirking and turnover, partially attributable to competitive labor markets.

Horn (2004)

"[Paper mills] acknowledged that skilled laborers frequently left their employ when they tried to discipline them, forcing the city’s masters to poach workers from one another”.

Looks like a job for Efficiency Wages!
Rather than pay efficiency wages, the masters of Vidalon-le-Haut and other papermills required each employee to use a *Certificat de Congé*, a written record of the employee’s previous employment and conduct.

Rosenband, 1985

“When a worker left Vidalon-Le-Haut, they updated the worker’s *certificat de congé*...appraised his attitudes and skills, and indicated under what circumstances he should be rehired”
Rosenband, 1985

“...It is possible to identify forty-three paperworkers and foreman and work in Vidalon-le-Haut in April 1784. Thirty-four of these men were trained by the Montgolfiers from 1780 through 1784. During the 1780s, 55.9 percent (nineteen of thirty-four) of these hands spent five years or more at Vidalon-Le-Haut. At the end of the decade, ten of them still labored there. Such persistence was not unheard of during the close of the Old Regime...nevertheless, the stability of the workers at Vidalon-le-Haut was unusual...Vidalon’s master secured a stable core of homegrown paperworkers, and even a few persistent journeymen”.

- Relying on certificat de congé achieved similar results to paying efficiency wages without creating involuntary unemployment.
Aren’t These Just Resumés?

- An obvious question
- Unlike today’s resumés, *certificat de congé* were employer-maintained, not employee maintained.
- This is an important distinction for two reasons:
  - Employers have "local knowledge" regarding what information other employers may value regarding a potential hire.
  - Employees have an incentive to modify resumés in order to maximize their appeal to potential employers. They may even choose to omit a past position entirely from their resumé. Employers have no such incentive present.
Aren’t These Just Skudsmålsbøgs?

- Another obvious question
- The concept of an "employment record book" is not unheard of through labor economic history, but it’s difficult to find examples of mechanisms serving a similar role to certificat de congé
  - The French would later use the livret d’ouvrier, which was a booklet containing identification and a list of past employers, but was used more to deter vagrancy than do provide information on potential hires, as it was prohibited to ”make any annotation favorable or unfavorable to the worker“ (de Vorepierre, p. 310).
  - The Danish Skudsmålsbøg was used only by domestic workers, an industry with much less vertical integration, and thus less potential for shirking. Also, ”in 1986 it was forbidden to write [comments on] behavior and abilities” (Friis, p. 1).
  - The Soviet Union used the Trudovaya knizhka, but only recorded personal information, dates of employment, and wage rates. The monopsonistic nature of a planned economy also limits the applicability of efficiency wage theory.
Application to Efficiency Wage Models

- If employers are able to "brand" shirking employees for all other employers to see, then employers can pay market-clearing wages while maintaining low levels of shirking.
  - In the Shapiro-Stiglitz model, a "critical punishment" replaces the critical wage when differences in unemployment experiences between shirkers and non-shirkers are introduced.
- Asymmetric monitoring is not as big of a problem as one might think—just scale punishments inversely with probability of being caught.
So Where are They Today?

- Given the drastic difference in communication and transactions costs between 18th-century France and today, we should expect a system of permanent records to be more effective in deterring shirking without creating involuntary unemployment.

- Services like Glassdoor have emerged allowing employees to spread information about employers, but not vice versa.

- State laws, like those of Kansas and New Mexico, may be to blame.


"[Employers are prohibited from] prevent[ing] or attempting to prevent by word, sign, or writing of any kind whatsoever any discharged employee from obtaining employment from any other person"

- Some states have tried passing "Job Reference Immunity Statutes" to counteract these effects, but tension with the common law and lack of knowledge of their existence have severely blunted their impact.
Several notable takeaways:

- The "problem" that efficiency wages are purported to solve presented itself in the case study almost as soon as the sufficient conditions were met.
- Employer-maintained records of employee conduct were just as effective as efficiency wages at curbing shirking.
- Existing efficiency wage models can be easily modified to account for the effects of this institution, which can yield a reduction of shirking without the creation of involuntary unemployment.
- Legal and legislative barriers exist to prevent the emergence of a similar system in modern economies, which may exacerbate involuntary unemployment.

Future research will hopefully examine this topic using more robust econometric analysis as opposed to case studies.
Thank you for your time and comments!