



Does labor contract completeness drive unionization? Experimental evidence

Sean Masaki Flynn^{a,*}, Michael Donnelly^b

^a Department of Economics, Scripps College, United States

^b Office of Research and Quantitative Studies, Division of Domestic Finance, U.S. Department of the Treasury, United States

ARTICLE INFO

Article history:

Received 29 January 2010

Received in revised form 8 June 2011

Accepted 14 July 2011

JEL classification:

J41

J51

J53

Keywords:

Unions

Labor contracts

Labor contract completeness

ABSTRACT

Flynn (2005) proposes that the degree to which labor contracts are complete may be a major driving force behind the propensity of employees to unionize. We find behavior consistent with this hypothesis in an experimental production game in which subjects are assigned to playing either employers or employees. The rate at which employees opt for a proxy for unionization more than triples when the labor-contracting regime under which they are working shifts from incomplete to complete labor contracts. Complete labor contracts drive out positive reciprocity, anger workers, and increase their desire to unionize.

© 2011 Elsevier Inc. All rights reserved.

This paper reports on two experiments designed to test Flynn's (2005) theory that the degree to which labor contracts are complete in a given industry will be a key factor in determining how likely that industry's workers are to unionize.

Flynn's theory is based on the idea that employees are happier and less likely to unionize when working under incomplete labor contracts than under complete labor contracts. This is the case because only incomplete labor contracts encourage positive reciprocity between employers and employees. The essential point is that under incomplete labor contracts, employees have the ability to shirk without being caught. This encourages management to treat employees generously and to rely on carrots rather than sticks. By contrast, employees working under complete labor contracts cannot shirk because they face heavy monitoring. Under such a system, positive reciprocity is suffocated because management tends to rely on sticks rather than carrots. The result is that workers laboring under complete labor contracts are much less satisfied with how they are being treated and, consequently, much more prone to joining a union in order to seek a redress of grievances.

The results presented here are noteworthy because, to the best of our knowledge, Flynn's (2005) hypothesis that labor contract completeness can explain the distribution of unions across industries is the only theory of its type. That is, while other authors

discuss why particular employees in particular industries at particular times may be more or less likely to unionize under particular circumstances, there exists to our knowledge no other general theory of unionization that makes any claim to explaining the different rates of unionization found across various industries in terms of a core set of characteristics or variables.

The remainder of this paper proceeds as follows. Section 1 describes the production environment and explains the Bonus Contract, Monitoring Contract, and Minimum Wage Contract that we use to model, respectively, incomplete labor contracts, complete labor contracts, and the option to unionize. Section 2 reports the results of the primary experiment in which incomplete contracts precede complete contracts. Section 3 reports the results of the secondary experiment in which complete contracts precede incomplete contracts. Section 4 concludes.

1. Modeling labor contract completeness and unionization with experimental games

Experiments reviewed by Fehr and Gächter (2000a) demonstrate that labor contract completeness has significant effects on the major outcome variables of employer-employee production games, including employee effort levels, the size of the total surplus generated by production, and the division of the total surplus between employees and employers. These effects had not been noted in previous work (see Prendergast, 1999; MacLeod and Parent, 1999).

The completeness of the labor contract appears to have pronounced effects on these outcome variables by either facilitating

* Corresponding author. Tel.: +1 909 607 3398.

E-mail addresses: sflynn@scrippscollege.edu, sean.flynn@scrippscollege.edu (S.M. Flynn).

Table 1
Effort cost to employees.

	Actual effort level, e									
	1	2	3	4	5	6	7	8	9	10
Cost to employee, $c(e)$	0	1	2	4	6	8	10	13	16	20

or impeding reciprocal gift exchanges between employers and employees. Indeed, reciprocal gift exchanges of the sort envisioned by Akerlof (1982), Leibenstein (1987), and Akerlof and Yellen (1990) can only take place in labor markets operating under incomplete labor contracts. The key intuition is that generous reciprocal behavior is the only way for employers to effectively motivate employees in situations where employees are free to shirk. And employees only have this option in incomplete labor contracting environments in which they possess significant freedom to vary their output levels without any substantial likelihood of causing themselves harm (either by getting themselves fired or by reducing the level of compensation that they receive).

By contrast, employees operating under a complete contracting regime are either guaranteed to suffer harm or are very likely to suffer harm if they reduce their effort levels. This is true either because the nature of the labor contract directly ties their compensation to their effort levels (as is the case with piece-work compensation schemes) or because the nature of the production process allows the employer to fully monitor effort levels and punish any deviation from the contracted labor agreement (as is the case with assembly line work where an inability or an unwillingness to keep up with the line is immediately visible to supervisors).

Since the point of this paper is to examine whether the propensity of employees to unionize varies under complete and incomplete labor contracting regimes, it is necessary to define specific contract types that will hopefully capture the essential real-world features of the decision to unionize and how it is affected by incomplete and complete labor contracts. When we wish to capture the essential features of an incomplete labor contracting regime, we require that employers only offer incomplete “Bonus Contracts.” When we wish to impose a complete labor contracting regime, employers can only offer complete “Monitoring Contracts.” An alternative “Minimum Wage Contract” that proxies for unionization is available to employees throughout the experiment so that we can see whether their propensity to opt for unionization varies depending on whether employers are constrained to offering only incomplete Bonus Contracts or complete Monitoring Contracts.

The Bonus Contract and the Monitoring Contract have been previously studied in great detail, most notably by Fehr et al. (2007). This is very useful when interpreting our results since it is already known how subjects behave when presented with these games. We can thus concentrate on how they behave with regard to the two novel features that we introduce—the option to unionize and how the popularity of that option is affected by the switch from an incomplete contracting regime to a complete contracting regime.

Before we proceed to describe the three contracts in detail, please note that in the instructions that were read by our subjects, the Bonus Contract and the Monitoring Contract were fully explained but never explicitly named. Thus, we do not have to worry about whether those names in any way biased subjects' perceptions as to the attractiveness of those two contracts.

By contrast, the Minimum Wage Contract was explicitly referred to in the instructions as the “Minimum Wage Option.” We therefore must take into consideration the possibility of that name causing framing effects. In particular, we might be concerned that the term “minimum wage” carries with it connotations of low social status.

We believe that our experimental design should be robust to these potential framing effects and that our results should not be biased by them. We hold this opinion because the “Minimum Wage Option” was presented to subjects both when the alternative was the Bonus Contract and when the alternative was the Monitoring Contract. Thus, any framing effects or biases related to the use of the phrase “minimum wage” should have been held constant over the course of the experiment. With the potential biases held constant in this way, the experiment tests whether—relative to the Minimum Wage Option and any frames that come with it—the Monitoring Contract or the Bonus Contract is better received by employees.

1.1. The production environment

All three labor contracts share the same general environment. To begin with, both employers and employees play for tokens.¹ They are informed in the instructions that each token will be converted into \$0.10 at the end of the experiment.² Furthermore, each player (whether assigned the role of employer or employee) is given an initial endowment of 125 tokens (\$12.50) at the start of the experiment and informed that if their total stock of tokens falls below 10 tokens at any time during the game (due to losses incurred as they play the game), they will be dismissed. As it turned out, however, no players were dismissed and average earnings at the end of the experiment were \$33.37 per person. The highest earner was an employee who finished with \$46.20 (including the initial endowment). The lowest earner was an employer who finished with \$22.10 (including the initial endowment).

The earnings of employers are referred to as profits, P , while the earnings of employees are referred to as income, I . The production function under all possible labor contracts is linear in the actual amount of effort, e , that employees exert, so that employers receive $10e$ units of revenue for any given level of actual effort, e , that employees put forth. The actual effort level is selected by employees after seeing the labor contract offers made by employers and can range over $e = \{1, 2, 3, \dots, 10\}$.

Actual effort, however, is costly to employees, so that employees must be incentivized by employers to provide effort. An employee's effort cost, c , is measured in tokens and varies with actual effort levels as described in Table 1. As is clear from Table 1, the marginal cost of providing effort increases with higher effort levels. It is only 1 token when moving from the lowest effort level $e = 1$ to $e = 2$, but gradually increases until it is 4 tokens when moving from effort level $e = 9$ up to the maximal effort level, $e = 10$. Thus, employers must not only incentivize employees to provide effort, they must also provide successively greater incentives if they wish to incentivize successively higher effort levels.

1.2. The Bonus Contract

Under the Bonus Contract, an employer makes a labor contract proposal consisting of three elements to the employee with whom the employer is anonymously paired:

¹ These were small glass discs that were referred to as “pebbles” in the instructions given to participants.

² The instructions are available upon request from the corresponding author.

Download English Version:

<https://daneshyari.com/en/article/970727>

Download Persian Version:

<https://daneshyari.com/article/970727>

[Daneshyari.com](https://daneshyari.com)