PRESENTATION OF "Fairness, Reciprocity, and Wage Rigidity" BY Truman Bewley (2005)

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HOW DOES THE PAPER RELATE TO THE LECTURE MATERIAL?

- Bargained wages and unionized settings often reinforce downward wage rigidity.
- Firms avoid wage cuts because they fear that workers will reduce their contribution to the firm's surplus.
- Unions amplify wage rigidity by resisting wage cuts to protect workers, which is consistent with Bewley's findings.
- Bewley's research challenges the idea that wage flexibility can quickly clear labor markets, explaining why unemployment remains high during downturns despite available workers.

WHAT IS THE RESEARCH QUESTION ADDRESSED BY THE PAPER?

- Why are wages downwardly rigid?
- Do traditional economic explanations (such as supply and demand) fully explain wage rigidity?
- How do fairness and reciprocity influence wage-setting behavior?
- Why do firms prefer layoffs to wage reductions?
- What do managers, unions, and employees think about wage cuts?

WHAT ARE THE MAIN ELEMENTS OF THE ANSWER TO THE RESEARCH QUESTION?

- Wage cuts are seen as unfair, leading to lower morale, reduced effort, and productivity losses.
- Firms prefer layoffs because they remove unhappy workers, whereas wage cuts demoralize the workforce.
- Employees expect fair treatment and reciprocate with effort, but retaliate when they perceive unfairness.
- Classical models predict wage flexibility but fail to account for the psychological and social factors driving wage rigidity.
- Wage cuts push the most skilled employees to quit, disrupting firms, and creating internal pay conflicts.

TOP CONTRIBUTING PAPERS

Author(s) and Year	Overview of Paper
Roger Kaufman (1984)	This study found employers avoided cutting wages to protect employee productivity and maintain positive morale.
Alan Blinder & Don Choi (1990)	They observed resistance to wage cuts, caused by concerns over fairness, reduced employee effort, and increased turnover.
Campbell & Kamlani (1997)	Their research revealed that managers preferred layoffs to wage cuts because wage reductions led to the loss of the most productive workers.
Agell & Lundborg (1995, 1999)	While surveying Swedish manufacturing firms, they found that strong union influence and the need to maintain external wage relativities contributed to a near-complete absence of wage cuts.

HOW DOES THE MATERIAL IN THE PAPER CONTRIBUTE TO THE PREVIOUS LITERATURE?

- Investigates wage rigidity using qualitative research. He interviews managers, labor leaders, and HR specialists to learn why businesses avoid wage cuts. Before this, most of the earlier research relied on wage and employment data.
- Supports the 'Gift Exchange' and 'Reciprocity Hypothesis.' His findings were based on Akerlof's (1982) gift exchange model, showing that workers reciprocate fair wages with effort but react negatively to wage cuts.
- Expands Beyond Traditional Economic Theories. Bewley shifts the focus from market forces to fairness, morale, and mutualism as key drivers of wage rigidity.

CONCLUSION

- The rigidity of the wage is driven by fairness, morality, and reciprocity, not just market forces.
- Firms avoid wage cuts to prevent productivity loss and employee dissatisfaction.
- Layoffs are preferred, as they minimize internal morale damage.
- Cutting wages may not reduce unemployment if it reduces worker motivation and productivity.
- Lack of quantitative data and econometric models could strengthen the findings.
- How do low- and high-skilled workers react to wage cuts?