DO WAGE CUTS DAMAGE WORK MORALE? EVIDENCE FROM A NATURAL FIELD EXPERIMENT

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Abstract
Employment contracts are often incomplete, leaving many responsibilities subject to workers’ discretion. High work morale is therefore essential for sustaining voluntary cooperation and high productivity in firms. We conducted a field experiment to test whether workers reciprocate wage cuts and raises with low or high work productivity. Wage cuts had a detrimental and persistent impact on productivity, reducing average output by more than 20 percent. An equivalent wage increase, however, did not result in any productivity gains. The results from an additional control experiment with high monetary performance incentives demonstrate that workers could still produce substantially more output, leaving enough room for positive reactions. Altogether, these results provide evidence consistent with a model of reciprocity, as opposed to inequality aversion. (JEL: C93, J30)

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