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THE ISSUES

Why are people paid in so many different ways? Most pay is in cash, but some is in kind. These days, a part usually is deferred until retirement, occasionally another part is paid “up front,” and some goes to purchase certain things, such as social security and unemployment insurance, that are legally tied to job holding and payroll taxes. How different allocations of pay among these and many other components affect the allocation of resources and economic performance is the main problem for the economic analysis of employee benefits.

Consumption per person is the ultimate measure of economic performance. After all, the economic role of productive capacity and other inputs in the economy derives from their contributions to sustaining consumption and improving the living standards of citizens over the long term. In primitive times, when transportation costs were so large that gains from exchange and the development of markets were extremely limited, specific acts of production and work hardly could be separated from specific acts of consumption. Robinson Crusoe had to carefully coordinate the consumption of particular goods with their production because exchange with others was not possible. Work and consumption essentially were joint decisions. Virtually all compensation was in kind.

The modern economy, with its extensive market structures and extraordinary division of labor, achieves much of its high standard of living by exploiting specialization and gains from trade. As always, personal command over consumption still is determined by the productivity of one’s labor and other resources, but consumption decisions are not nearly so tied to specific, personal acts of production. If all pay
were in cash, virtually all personal consumption decisions would be independent of personal income sources. None whatsoever would be tied to particular acts of work, and each person would purchase precisely the most desired consumption bundle, independent of what others chose. Needless to say, this is not the way things are always done.

We have moved a long way from Robinson Crusoe, but many personal consumption items and other forms of spending are closely tied to work. Compensation is a complicated package of payments, promises, and obligations in most modern labor markets. Important aspects of compensation are provided in kind, often in the form of bundles of goods that are purchased in common by all workers in an organization. Fringe benefits, such as health and retirement plans, typically have many uniform features among all workers in a firm. The effort and attention paid to these items suggest that much is at stake in the precise form in which compensation is paid today.

THE EFFICIENCY OF MONETARY PAY: GENERALIZED PURCHASING POWER

Economies of information make decentralization through some form of market system the standard “default” paradigm for economics. In theory, it is the utility-maximizing allocation of work, output, consumption, and investment that determines potential economic welfare, given tastes and technology. How is this allocation achieved? If preferences were fully known and transactions were costless, people could equally well hire agents to purchase goods on their behalf to choose among particular items themselves. The same utility-maximizing outcome would be achieved in either case.

However, if tastes are private information and not easily known or conveyed to others, vast resources are saved by decentralization. Decisions are made more efficiently. Individual consumers are in the best position to make the most informed choices on their own behalf. Delegating or contracting it to others is bound to lead to misallocations in most cases. There are considerable savings from not having to communicate all possible preferences to others, not only to avoid misunderstandings, but also for hired agents to make the right choices should
unusual circumstances and unexpected opportunities arise. In addition, individual choice avoids potential conflicts of interest and control problems of delegating decisions to people who have independent interests and agendas of their own. Who will spend a person's money in that person's best interests? The person or someone else? This, of course, is the fundamental argument for the desirability—indeed, the necessity—of decentralized individual decision making to efficiently allocate resources. Why then, should compensation be paid in any other form?

The most important reason arises from Alfred Marshall's observation that workers must deliver their own work themselves. Insofar as there is utility or disutility in specific acts of work, work locations, work associates, etc., these must be appropriately accounted in final consumption and considered as payments in kind. Even in the absence of these technological tie-ins and consumption (or possibly investment) aspects of work, however, there are other economic reasons for consumption decisions to be "centralized" in collective or group decisions, sometimes tied to work decisions and at least partially delegated through firms, and other times delegated to government or other agencies.

One reason is potential economies of scale in the provision of some types of goods. Another is a form of externality, where the consumption of one person affects the welfare of others in ways that cannot be fully priced nor fully internalized socially by purely private choices. A third is intertemporal externality or consistency problems, where adverse individual outcomes are shared by the community at large.

Economies of Scale

Economies of scale is the most familiar, indeed, the stock argument for the provision of public goods through collective or public choice. Joint provision of a common good to many consumers saves transaction costs that otherwise would be incurred if individuals make the decisions for themselves, completely independent of each other. Saving transactions costs in these cases typically requires that the administrative agency purchase a standardized good or a very limited range of goods; otherwise, the economy of scale tends to be lost. Col-
lective choices, therefore, necessarily involve some loss of freedom relative to making independent individual choices. Individuals in the group do not always get exactly what they desire most under these restrictions, and this represents the private and social costs of buying goods collectively through group consensus rather than individually.

Such costs are not voluntarily incurred unless there are corresponding benefits. It is rational to subvert one's specific preferences to common, group-chosen consumption standards if the good can be obtained cheaply enough. Goods provided in this way tend to cater to median preferences in the group, but if the system is stable, the goods must be close enough to the preferences of any member to make continued participation worthwhile. Otherwise, members would defect, and the group would either change its character or disappear altogether.

In advanced market economies, perhaps the most important cause for components of pay to take this form is tax avoidance. To a first approximation (but see below), the firm cares about the total cost of an employee, not how the cost is allocated among various components of compensation. Furthermore, all costs are equally counted as expenses in calculating income, corporate or otherwise, for assessing tax liabilities of the firm. To the extent that the tax system finds it difficult to tax in-kind income of workers, there are obvious incentives for firms and workers to agree to convert income into tax-free, in-kind forms. Some ways of doing so are easier than others (Woodbury and Huang 1991).

Tax authorities everywhere are loathe to impute income to "intangibles" for tax purposes because of the difficulties of doing so without costly disputes and substantial differences of opinion. An obvious example is the failure to impute rent on owner-occupied housing in calculating the personal income tax. A less obvious example is imputing taxable income for jobs with desirable amenities, such as good working conditions, location, office quality, air-conditioning, and other. Income taxes encourage on-the-job consumption of such items because it is too costly to calculate their monetary equivalents in each individual case. Obviously, these forms of pay are of greater value the greater the marginal tax rate. Progressive income taxation implies that these forms of pay are of greater value to higher-wage workers than they are to lower-wage workers.

The monetary value of many other things, such as company-provided meals, housing, club memberships, and work clothing are easier
to assess, and they are often included in income for individual income-tax purposes. Other important benefits, such as the employer's share of contributions to retirement or to health insurance, however, have easily imputed value but still are exempted from taxable income by law. It is interesting to note that many in-kind pay provisions in the United States and Canada originated in periods such as wartime, when nominal wage controls were used to suppress inflation. There is a natural tendency toward "wage drift" in those circumstances: using wage and price controls to suppress inflation gives strong incentives for workers and employers to look for ways to increase worker incomes exempt from regulation. Provision of company-owned housing to employees often was used for this purpose in Europe in the post World War II era. World War II money wage controls are said to be the origins of firm-provided health insurance to workers in the United States.

Externalities and Productivity

Next, consider goods that have “productive consumption” attributes, that is, goods having important linkages between personal consumption and personal productivity. The consumption of many goods affects productivity directly, some for the good, others for the bad. In a fully decentralized and complete market economy, private consumption decisions would take these productivity by-products fully into account because individuals would confront the full costs and benefits of their decisions. For instance, if an act of consumption, such as drinking, causes one's productivity to fall, the person rationally anticipates an extra charge in the form of reduced wages while under the influence and properly takes that into account in deciding where, when, and how much to drink.

In practice, many markets are incomplete and too costly to operate. In such cases, these by-product effects on others are not fully priced and not always fully internalized by private decisions. A worker who gets drunk and has to skip work might get docked a day's pay, but typically doesn't have to compensate co-workers for the bother and extra effort they must exert to make up for the absence. Usually these imperfections arise because transactions costs make it too expensive for firms and workers to contract directly on worker output.
Rather, transactions costs are economized by contracting more imperfectly on inputs, such as own time, whose day-to-day quality is hard to monitor and can be partially affected by conscious worker (and firm) behavior. In these cases, firms have interests in their workers' consumption habits because it directly affects labor costs and firm productivity. Paternalistic interests by firms in their workers' welfare can arise solely on considerations of self-interest, without any altruism whatsoever. Many U.S. firms provide athletic facilities, meals, and health services partly for these reasons.

This idea has many potential applications. Consider, for instance, the provision to workers of complementary inputs into the production process. One could imagine a system in which professors were required to purchase their own chalk for classroom lectures, instead of the system we have, where educational institutions typically provide it "free of charge." If professors were paid directly by their students and their fees varied directly with the demand for participation in specific classes, teachers would carefully calculate the costs and benefits of using chalk for enhancing their net revenues and would choose to use the socially efficient amount.

However, in the system we have, professors aren't paid directly by students. Most teachers are paid on an annual salary basis, and pay is only imperfectly geared to specific classroom performance, so having the professor buy the chalk probably would lead to inefficient decisions that would imperfectly serve the interests of students and schools. A teacher could decide to use no chalk whatsoever, saving these personal expenses while receiving, at least in the short run, more or less the same pay from the school. Under these conditions, it's just easier for the school to freely distribute chalk on each chalkboard each day and let the professor use all that is desired. Using chalk excessively at the margin may be better than not using enough.

There is no need to belabor the triviality of this example. It was chosen for its possible (mild) amusement value and familiarity to some readers, but there are many more important examples. A production worker in a large manufacturing establishment today is paid to work with capital and machines that are almost always owned by third-party shareholders in the firm and looked after by managers hired for that purpose. Yet, in the early days of the factory system, it was common for workers to rent machinery directly from the factory owner and mar-
ket their own output themselves. "Compensation" would look much different under these two circumstances.

Corporate executives could be given no complementary resources, such as offices, secretaries or assistants, to work with. Instead, they might rent their own office (if indeed they wanted one) or hire additional help at their own expense. Such expenses would be worthwhile and incurred voluntarily if they improved the person's productivity enough. Yet, for most executives, decentralized arrangement such as these hardly ever arise because it is so difficult to pay executives on the basis of their specific "outputs." It is more economical for the firm to provide productivity-enhancing complementary resources as part of the work environment and pay managers mostly on the basis of their own time inputs.2

Worker-Firm Commitment

A particular form of these kinds of interactions has been extensively analyzed in economics over the years. When it is expensive to use and to closely control implicit markets for internal transactions within the firm, it can be efficient to substitute cooperative, sharing solutions between workers and management instead. The concept of firm-specific human capital has been an important development in labor economics and essentially this is what lies behind it. If many internal transactions are not explicitly priced or are priced incorrectly, there is potential for unproductive conflict among various agents in an organization. In making their individual production and investment decisions, some conflict is avoided by providing incentives to encourage workers to weigh the interests of the organization as a whole in addition to their self-interests. It's as if workers were brought into the enterprise as implicit partners. All parties bear some of the costs and some of the returns in mutual investments in worker-worker and worker-management knowledge and relationships. Issues of paternalism arise within the organization from the joint interests of all parties to protect their shared investments and stakes in the firm. This is not entirely unrelated to the ways in which interpersonal relationships develop in families.

Probably the most important benefit that results from these shared investments is employment security and enduring employment rela-
tionships. In reality, employment contracts always are of random duration, with future (implicit) promises guaranteed only up to the external fortunes of the firm, the state of demand for its products, the economic conditions of its suppliers, and the quality of its managers. Nevertheless, the fact is that there is an enormous amount of job continuity over the working lives of most people. The typical pattern is for job turnover to be largest at younger ages, a time when learning and information gathering about both the talents of young workers and their prospects in firms is most important. Job turnover falls sharply with work experience in the firm. Within 6 or 7 years of entry into the labor force, the typical worker has found a permanent job that will last for 20 years or more.

It is a bit unusual to think of employment security as a fringe benefit, perhaps because, with few exceptions in some trade union contracts, these terms are not explicitly written down anywhere. Nevertheless, the ties that are built up through mutual specific human capital investments serve as the equivalent of financial bonds and act to discourage costly quits and layoffs under many circumstances. They affect employment variability and the incidence and duration of unemployment in the economy (Rosen 1985).

A great deal of empirical work has established that the payment of normal fringe benefits and other fixed costs of employment in the firm, such as hiring and training costs that are not closely related to work intensity, insulate workers from short-term product market fluctuations (Hamermesh 1993; Hart 1984). For instance, if demand falls but the decline is expected to be temporary, the firm has something to lose by laying off workers. It has incentives to retain them because some valued employees will never return if they are laid off, and the fixed costs associated with their initial employment must be incurred again on subsequent replacements. Similar considerations apply to workers and serve to deter them from quitting in response to attractive short-term outside opportunities. All of this acts as a kind of self-insurance that supplements explicit unemployment insurance programs mandated by the government.
Intertemporal Consistency

Finally, there is a related concept of externalities that cuts across a different spectrum of consumption activities and personal behavior. For the problem at hand, the most important of these are "social insurance" types of activities involving transfers of resources among individuals and over time. Perhaps the main growth of the State in otherwise decentralized market economies throughout the world is attributable to mandatory, tax-financed provision of activities such as health care, unemployment insurance, retirement plans, and the like. The subject is too vast to be discussed in any detail here, except to point out the tendency for centralized government decisions to increasingly substitute for private planning and individual decisions throughout this century. The fact is that governments have increasingly undertaken these paternalistic functions, often administrated through employment records and financed by payroll and income taxes. Few, if any, compelling explanations for this most important social and economic trend have been offered, and no attempt will be made to do so here.

With the possible exception of unemployment compensation, most of these activities are best thought of as essentially private acts of consumption or investment, that is, the government supplying or regulating private goods. How much a person wishes to set aside for future retirement or to spend on a personal medical condition is inherently a private decision, so the classical economic case for the possibility of public policy does not immediately apply. However, a case can be made that external social interests arise if the financing of these private decisions turns out to concern others. Choices may then not be time-consistent in the following sense. Some individuals may make earnest but erroneous decisions, and others may not be willing to let them suffer the poor *ex post* consequences of unfortunate choices. If this outcome comes to be anticipated, however, and individuals think they can be bailed out by throwing themselves at the mercy of the community, it encourages reckless, inefficient behavior that can be avoided by forcing people to set aside resources to take care of themselves.

A person who hasn't bought health insurance on the expectation of not getting sick often is cared for at public expense should the unlikely and costly illness occur. Some people who gamble away their retire-
ment wealth or invest retirement funds unwisely find themselves in a similar situation. The community finds it difficult to completely turn its back on such people \textit{ex post}, and it is hard to credibly commit to not doing so \textit{ex ante}. Knowing that the community will step in, however, creates incentives for inefficient private decision making in the first instance. Many firms make participation in retirement and health insurance plans mandatory for these reasons. It protects them against paying excessively for old loyalties and "family" ties to employees. The community at large has a similar interest in mandatory participation. In practice, it often finances these programs through payroll taxes on employment.³

THE PRINCIPLE OF SUBSTITUTION

The basic approach to analyzing the structure of compensation was put forth by Adam Smith in his extraordinary discussion of the tendencies for labor market equilibrium to equalize the net advantages among alternative employments. If some kinds of jobs offer attractive amenities and substantial in-kind pay compared with others, their observed monetary compensation must be lower to ration eager job applicants and encourage some workers to apply to less attractive employments. This idea implies an index number approach to assessing "total advantages," imputing value for all in-kind and other components and adding them to nominal wages to assess the total. In equilibrium, all components additively substitute for each other at the margin. Otherwise net advantages would not be equalized.

The compelling simplicity of the logic of equalizing differences is not always matched by simplicity of application, especially in the realm of public policy. As has been stressed throughout this essay, the many alternative ways of providing consumption to people makes it important to keep substitution possibilities and private incentives in mind when analyzing public programs. In many cases there are important offsets. Direct effects of policies are not always as large as they might appear on the surface. The important consequences of many programs are as likely to arise from hidden subsidies built into many of them, as to the programs themselves.
Examples are easy to find. Indeed, analysis of these programs has provided plenty of work for analysts over the years, something like a works-project-administration relief bill for applied economists in the past few decades.

1) When the payroll tax was increased to finance Medicare for elderly persons in the United States in the mid 1960s, there was a significant decline in private health insurance purchases by the aged. To be sure, Medicare increased health insurance coverage among the elderly population, but the subsequent run-up in expenditures was caused as much by the enormous subsidy in Medicare prices as by increased coverage.

2) Private pension plans in the U.S. labor market invariably coordinate their benefits and provisions with a worker’s expected claims on Social Security pensions. From a firm’s point of view, it is a matter of indifference whether a dollar is paid into a funded private pension plan or into Social Security’s unfunded pay-as-you-go system through payroll taxes. Many have argued that the decline in private saving in the United States is partly attributable to the substitution of unfunded government pensions for funded private pensions.

3) The financing of public unemployment benefits increases the propensity for many firms to increase layoffs in adverse business conditions and increase the unemployment rate (Topel 1983). These kinds of incentives are even more adverse in the Canadian system than in the U.S. system because high-risk firms do not pay actuarial fees reflecting the risk they impose on the system to the insurance fund. Furthermore, the enormous subsidies for seasonal unemployment in the maritime provinces causes inefficient tax distortions in employment decisions elsewhere in Canada and encourages many workers to remain employed in seasonal industries even though their productivity is much lower in them than in other locations or in nonseasonal jobs.

4) The tendency for European governments to closely regulate employment commitments of firms affects their propensity to hire young workers, thus increasing the joblessness of youth and worsening their long-term prospects (Lazear 1990).
There is compelling empirical evidence of substitution between wages and private fringe benefits and direct on-the-job consumption amenities in the form of equalizing differences (Woodbury 1983; Rosen 1986). Nonetheless, what often appears in the data seems not to be equalizing in this sense at all because it is generally the good jobs—the ones with high wages, good working conditions, and low turnover—that offer the most fringe benefits. Low wage jobs are more often associated with poor working conditions, high turnover and exposure to unemployment, as well as low fringe benefits. This, however, does not affect the logic of substitution and the necessity for analysis to proceed on such terms in contemplating new regulations and programs because these observations also are readily explained by a few simple extensions of the argument.

Focusing on the consumption aspects of pay composition reveals why higher paying jobs tend to offer more benefits and perquisites. Many consumption items tied to work are normal goods. They have positive income elasticities, so higher skilled and higher wage workers would be expected to purchase more of them, on average, than would lower skilled, lower wage workers. Were it not for greater consumption and participation in these kinds of arrangements, highly skilled workers would have even higher wage rates than are actually observed. Favorable tax treatment of some forms of fringe benefits reinforces the incentives for high wage workers to convert their pay to these forms.

Estimates of total resources spent in these forms are surprisingly hard to find, but they must be a fairly large component of total compensation. Health and retirement benefits, certainly the most easily measured components, account for about 10 percent of total monetary compensation (Smeeding 1983; Slottje et al. 2000). Assessing implicit values for such things as job security, work and location amenities, flexible work schedules, and a wide variety of other aspects of work has proven more difficult, not least because of the reasons mentioned in the paragraph above. Surely numbers on the order of another 10 percent of total pay would seem to be a reasonable minimum. If so, fringe benefits broadly defined must account for 20 percent or more of total compensation in the U.S. labor force. Adding the payroll taxes used to finance a number of other related social programs contributes a substantial amount more. These are large numbers. They are impor-
tant components of the economy and can be expected to grow over time.

**SOME EXAMPLES AND APPLICATIONS**

Some extreme cases illustrate many issues arising in the economics of fringe benefits in a dramatic way. Perhaps the most unusual case is military compensation. A substantial amount of military compensation is in-kind. In the ancient world, plunder was a principle component of military pay—today compensation is provided by governments. Conscription in modern armies relieved the state of most direct cash payment obligations, so a very large fraction of conscript army pay was direct provision of consumption and future retirement benefits. Nonetheless, even in voluntary armies the proportion of direct monetary pay in total compensation is much smaller as compared with that of other employments.

Almost all the factors mentioned above apply in one way or another to military compensation (Rosen 1992). The nature of military production requires massing personnel in far off locations largely removed from the rest of the population, so separation of consumption from production is difficult, if not impossible. The remote areas in which military outposts are placed makes it costly for private markets to supply many consumption needs directly to soldiers. The army itself must be a major provider of many of these things. To a large extent, these expenditures are taken "off the top" and make military monetary compensation appear smaller than is truly the case.

The army has direct interests in the consumption and behavioral patterns of personnel to maintain its readiness and force-quality status. Partly, this is controlled directly in the consumption goods that are made available, a point that is reinforced by the economies of scale in providing standardized consumption and other expenditures for recruits. In addition, the army has special reasons for insisting on common consumption standards and a fair bit of equality of treatment among recruits, to maintain and invest in the esprit de corps needed to maintain an effective force. Loyalties to the organization are extremely important because of the obvious conflicts between self-interest and organizational interest in dangerous situations.
Of course, many military-specific skills also have little value in other employments. To protect its training investments in personnel from excessive depreciation through turnover, military organizations tend to back load pay to a significant extent, with vesting rights set up in ways that encourage career personnel to stay for lengthy periods. Back-loaded retirement pay also helps resolve agency and obedience problems that encourage proper teamwork. There are sound economic reasons why military organizations are so paternalistic.

Some private employments have military-like features. Work required in far flung outposts, such as the Hudson Bay Company in the 19th Century, or the Alaskan pipeline in the 20th, largely followed the military model because the market for consumption goods was too thin to make complete decentralization practical. Furthermore, in many of these circumstances, the employing firms had a direct interest in the consumption patterns of their employees because it might affect their productivity. Institutions such as the truck system and the company store arose to meet these needs (Hilton 1957).

The former Soviet Union and other countries in the Eastern Bloc provide interesting contemporary examples of how fringe benefits affect resource allocation. The examples also have implications for current economic reforms there because the change in control of enterprises and production needed now may be impeded by past obligations the State enterprises made to their employees (Lazear and Rosen 1995).

In many ways those economies followed a military-style economic organization, something that is practically inevitable in a central command and control system. In addition to their overwhelming role in total production, the state-owned enterprise typically served as the natural administrative unit through which many aspects of consumption were organized. Housing was often provided to employees at subsidized rates, as were public utilities, child care, and many direct consumption items such as food and clothing. Income in-kind and other "fringe benefits" were a much larger proportion of total pay in these economies than in most market economies, partly for ideological reasons, but also because centrally commanded systems need substitutes for market mechanisms.

The socialist structure was inherently paternalistic. It encouraged equality and common consumption standards to promote solidarity and
commitment to the system. Housing, education, food, and health services were viewed as more socially productive kinds of consumption than were other goods. Conspicuous consumption was stigmatized. The practicalities of central control were important as well. The command system does not allow prices to fully allocate resources across most goods. Draconian penalties for participating in illegal markets discouraged their use. When the state determines production and consumption allocations, surpluses and shortages of both goods and jobs become a chronic condition of life. Other, far more costly, social institutions arise to fill in the gap.

Queues are a familiar manifestation of nonprice rationing allocation problems, but there are other mechanisms that serve this purpose, including clout, political connections, and barter. For example, the provision of a substantial hot meal in company lunchrooms was very common in State enterprises because alternative markets either for prepared meals or for raw ingredients were so limited. Furthermore, the central authority had to limit labor mobility in order to carry out its production plans. More goods were made available in large cities such as Moscow than in other places, and an elaborate system of passport control was needed to insure that workers remained where the central plan allocated them. State control of housing was required for these purposes, and since wage rates were not allowed to clear specific labor market shortages and surpluses, firms often supplied their own housing to get the labor they needed. Company-provided housing was itself partially allocated by internal queues within the firm rather than by prices.

The tax system that supported the state bureaucratic apparatus in these economies was hidden in total government ownership of physical capital. However, there were substantial implicit payroll taxes because state income and old-age security, and some health services, though formally administered by the central and local governments, were financed through taxes on the utilization of labor by enterprises. The absence of well-functioning private financial institutions also required extensive involvement of the state and enterprises in intertemporal allocations of consumption (saving and dissaving) of workers over their lifetimes. For example, retired workers often remained in their company-provided housing paying little for rent and utilities.
In short, Soviet workers were important stakeholders in their enterprises. These intensive ties and social commitments undoubtedly were a major force in the operation of soft-budget constraints and unattainable consumption desires that eventually brought the system down. However, they have also presented serious obstacles for reform and movement toward a market system in these countries. In the command system, the firm and the state were so intertwined that it was almost impossible to distinguish between the obligations of the two. Now that the enterprise and the state have to be so clearly separated, it is not obvious to whom these commitments to workers will be transferred and how they will honored when control of enterprises redounds to private hands. The state may sell off claims to machinery, equipment, and structures, but who will gain “title” to the security and consumption obligations these firms have built up with their workers?

No doubt, many of these obligations will merely be forgotten, and workers, left with broken promises, will have to fare on their own devices. Presently it is obvious that a system of consumer and worker “sovereignty,” where workers’ economic fortunes and connections were not so closely tied to specific enterprises, would make the transition to a market economy much easier. Uncertainty about previous commitments is proving to be an enormous obstacle in moving toward a rational ownership and market structure in these countries. In China, the remarkably productive rural and agricultural reforms hardly have been attempted in the large urban State enterprises. These difficulties are not confined to poor economies. In such rich countries as the new, unified Germany, the willingness of West Germans to pick up the social obligations of their Eastern relatives has been a great economic and social drag on that economy. Other formerly socialist or communist countries have no such rich relatives to lean upon. These problems are not only confined to countries attempting to reform their economic structures. In the United States, tie-ins of some fringe benefits to job holding, such as health insurance, apparently have inefficiently limited labor mobility between firms in recent years (Madrian 1994).
CONCLUSIONS

Fringe benefits are of importance to such fundamental labor market problems as the social organization of work and production, as well as to social and moral obligations between workers and firms and of governments to citizens. These issues cut deeply into core issues in labor economics and, indeed, of economic systems more generally. They deserve more attention than they have generally received from the economic research community.

Notes

1. Some jobs embody negative attributes and disutility. In principle, these should be subtracted from total income to arrive at final consumption.

2. No doubt the individual income tax is a factor here as well. However, it is not decisive because offices, secretaries, and other complementary inputs usually were provided to managers free of charge before the income tax was important. The income tax encourages excessive use of these things—plusher offices on higher floors and more secretaries and assistants.

3. This logic helps one to understand why there is a community interest in “social” programs, but it cannot explain either the form it takes or the magnitude of the interest. It cannot explain why governments have often gone into these businesses directly rather than regulating participation in private programs; nor can it account for the great growth of these programs in this century.

References


