MWR Research Has Disappeared

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It is testimony to the determined Ptolemaic defense of mainstream market-centric, general-equilibrium macro theory that publication of research on the existence and nature of meaningful wage rigidity (MWR), defined by its capacity to rationally suppress wage recontracting, has disappeared. The vanishing act took hold after the turn of the century, when it was made clear to prospective authors that MWR was no longer a publishable topic.

The gatekeeper rationale cannot be that MWR is inconsequential. Postwar early Keynesians identified MWR as the linchpin for stabilization-relevant macro theory. Nothing since has refuted that models with and without MWR are fundamentally different, the former being consistent with critical evidence and the latter not. Nor can it be that MWR is incompatible with two fundamental precepts – optimization and equilibrium – that characterize consensus economic thinking. The GEM Project has carefully derived meaningful wage rigidity from rational price-mediated exchange organized by coherent continuous general decision-rule equilibrium. We are left with the true reason for the MWR fall from favor. It is rooted in mainstream protection of existing general-market-equilibrium human capital, which cannot accommodate the suppression of wage recontracting. Such reputational self-interest does not surprise. It is understandably hard to come clean about the stabilization irrelevance of a macro model class that you have been teaching to graduate students (undergraduates are less credulous) for decades.

As noted, the acceptability of MWR research apparently ended around the turn of the century. Truman Bewley (1999a) made it under the wire with what I believe is the most nuanced evidence on why rational firms do not cut nominal wages. In the early 1990s he carefully interviewed 104 business leaders in the New England region, asking why worker morale matters to them. The range of responses to that question cannot be uninteresting to macro theorists:

Percentage of Businesses Citing the Reason

Low worker productivity	89%
Poor customer service	14%
Turnover	13%
Recruiting	7%
Absenteeism	4%
Unionism	3%

Bewley (1999b, p.1) concluded: “Employers were reluctant to cut pay because they believed doing so would hurt employee morale, leading to lower productivity and current or future difficulties with hiring and retention. It was thought that these effects would in the end cost more than the savings from lower pay.”

Campbell and Kamlani (1997), in their survey of 184 compensation executives from large U.S. firms, queried how much workplace productivity would decrease if wages were cut by 10 percent. The mean response was 20 percent. Nearly 7 out of 10 believed that the principal reason for the harmful effects was damaged worker loyalty. Most also thought that labor input would be most impacted if employees believe that their employer is profitable and least affected if there are credible financial losses that threaten jobs. Blinder and Choi (1990) reported similar survey results.

International examples of MWR research are also revealing. Agell and Lundborg (1995) examined management views of workplace conduct in response to adverse departures from established reference wages in a survey of 170 manufacturers in Sweden. Most firms responded that fairness and worker morale are of overriding importance in wage policymaking; eighty percent believed that at least half of their jobs would have to be clearly at risk for employees to accept wage cuts with no adverse effects on productivity on the job. Kaufman (1984) interviewed 26 nonunionized firms in Britain and reported that the related issues of fairness and worker morale were the most cited reasons for not cutting wages.

Romer (2001, p.460) summarized the survey-based results: “The surveys consistently suggest that workers’ morale and perceptions of whether they are being treated appropriately are critical to their productivity. The surveys also suggest that workers have strong views about what actions by the firm are appropriate, and that as a result their sense of satisfaction is precarious.”

Non-survey evidence supports the GEM narrative. Holzer and Montgomery (1990, p.4) investigated data from the Employment Opportunity Pilot Project (covering more than 3,400 firms between 1980 and 1982) and, with respect to nominal wage behavior, concluded: “Wage adjustments in response to demand shifts appear to be quite asymmetric, with significant adjustment in response to positive shifts but little in response to negative shifts.” Data drawn from German Social Security accounts, analyzed by Beissenger and Knoppik (2001), also reveal substantial downward nominal wage rigidity. Analyses by Altonji and Devereux (1999) and Lebow et al. (1999) found the consistent sharp asymmetries around zero wage change. Nominal wages in specialized economies are sticky downward, not upward. Altonji and Devereaux also econometrically tested their data (from the Panel Study of Income Dynamics), estimating that notional wages must decline by at least 20% for a nominal wage cut to occur.

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